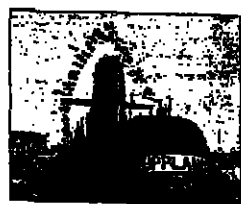


# FINANCIAL TIMES

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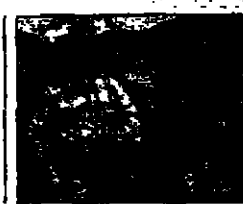
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A top rate  
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## WORLD NEWS

### Clinton and Blair to meet to discuss political 'third way'

President Bill Clinton and Tony Blair, the British prime minister, are to meet in New York next month to discuss their "third way" alternative to traditional political ideologies. Page 10

**Kohl moves up in polls**  
A new opinion poll showed support for Chancellor Kohl's Christian Democrats edged up to 35.2 per cent from 34.5 per cent a week earlier in the run-up to next month's German election. SPD and taxation, Page 2

**UK rethink on Sudan raid**  
The UK Foreign Office appears increasingly concerned that the US bombed an innocent target when destroying a pharmaceutical factory in Sudan last week. Page 6

**China floods hit growth**  
A leading Chinese economist said economic losses from devastating floods across China this year could be far higher than the official estimate and economic growth could slip as low as 7.3 per cent for the year. Economic impact, Page 3

**US reopens King assassination**  
The US Justice Department said it would reopen its investigation into the death of Martin Luther King Jr, the civil rights leader who was assassinated in April 1968. Page 5

**Egypt denies holding Nidal**  
Egypt denied it was holding wanted Palestinian guerrilla chief Abu Nidal, who was reported to have travelled there to seek treatment for leukaemia. Page 4

**Rebels attack Kinshasa**  
Rwandan-backed rebels fighting Congo's President Kabila launched an assault on the capital Kinshasa, infiltrating suburbs near the airport and triggering a fierce artillery battle. Page 4

**Chirac urges renewal of ties**  
President Jacques Chirac called for a "renaissance" of Franco-German relations, saying current structures should be adapted to the new conditions in Europe. Page 2

**Evidence of Kosovo abuses**  
Evidence is mounting of systematic human rights abuses against ethnic Albanians arrested in Serbia's Kosovo province on suspicion of links with separatist rebels. Page 2

**FBI to probe Johannesburg bomb**  
Agents of the US Federal Bureau of Investigation were on their way to Cape Town, South Africa to help find the perpetrators of the bomb blast in a Planet Hollywood restaurant. Page 4

**Unions prepare for air alliance**  
Unions representing 24,000 pilots employed by British Airways, American Airlines and their nine partner carriers have formed a global strategic coalition. Page 4

**UK trucks warn Europeans**  
British truckers are threatening legal action against their counterparts in mainland Europe, if they block roads during a day of action on September 8. Page 6

**Dall fan keeps talking**  
Salvador Dall enthusiast Luis Colet began an attempt to deliver the world's longest speech to mark the 33th anniversary of the late surrealist painter declaring Perpignan railway station to be the centre of the universe. Page 17

## BUSINESS NEWS

### Lufthansa interim profits more than double to DM928m

German airline Lufthansa more than doubled interim pre-tax profits to DM928m (\$513m), underlining its position as one of Europe's most profitable carriers. The airline, which was fully privatised last October, benefited from a fall in costs and strong passenger growth. Page 11

**Avesta Sheffield, stainless steel manufacturer, announced 1,000 job losses, mainly in the UK and Sweden, following a collapse in metal prices and growing overcapacity. Page 11**

**Deutsche Bank shares fell by more than six per cent after Standard & Poor's removed the German bank's triple A credit rating, the highest rating possible. The move coincided with worries about German banking exposure to Russian borrowers. Page 11; Lex, Page 10**

**US manufactured durable goods orders rose at their fastest rate for eight months in July, the US Commerce Department said, but the underlying trend still pointed to a reduction in manufacturing activity. Page 5**

**Mannesmann, German conglomerate, won permission from the Italian government almost to double its stake in Olivetti's cellular and fixed-line telecommunications businesses to 49.9 per cent. Page 12**

**Oracle, the world's second largest software company, plans to allow small businesses to rent computing power and software over the internet. Page 14**

**Pasminco of Australia, the world's largest zinc producer, reported annual net profits 2.2 per cent down at A\$63.3m (US\$36.5m) because of lower production and higher costs in its home market. Page 13**

**Nissan Diesel, troubled subsidiary of Nissan, Japan's second largest carmaker, may lay off more workers because of falling demand in the domestic truck market. Page 13**

**Telstra, Australian telecommunications group, said net annual profits jumped 17 per cent to A\$33m (US\$17.5m), but warned of intensifying competition. Page 13**

**Petronas, Malaysian state oil company, is considering a bid for Engen, the biggest South African oil group, which has interests in both distribution and exploration. Page 12; Petronas in LPG venture, Page 13**

**Pro Sieben, German media group that owns the country's most profitable television network, said it would invest DM500m (\$276m) a year in the purchase of film rights. Page 12**

**Asahi Breweries, Japan's second biggest brewer, plans to review its international activities as part of a bid to expand its share of the global beer market. Page 11**

**Yardley, 228-year-old English cosmetics company that supplies the Queen Mother with perfume, was put in the hands of receivers. Page 15**

### Euro Prices

A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 17

CSFB CLAIMS COUNTRY'S ELITE 'PLUNDERED' CAPITAL ■ SOROS FUND ADMITS \$2BN SETBACK IS WORST EVER

## Investors face \$33bn losses from Russian bond default

By Our Financial and Foreign Staff

Foreign investors in Russian bonds are facing losses exceeding \$33bn, according to a conservative estimate, because of the government's effective default.

The losses include George Soros's investment funds, which admitted yesterday they had lost up to \$2bn as a result of the Russian economic crisis.

The Russian loss is the largest suffered by Mr Soros's Quantum Group, said Stanley Druckenmiller, chief investment strategist at Soros Fund Management.

Credit Suisse First Boston, the Swiss-owned investment bank, said that Russian elites had "plundered" the country's capital. It said its profits had fallen more than \$250m in less than two months because of Russia.

Paul Luke, a senior emerging markets trader at Deutsche Bank in London, said losses on foreign holdings of Russian dollar and rouble-denominated bonds could exceed \$33bn. Other estimates have ranged up to \$50bn.

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CSFB loss put at \$20bn Page 14  
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About 75 per cent of the paper value on Russia's hard currency bond debt had been wiped out, Mr Luke said. His estimate excludes not only bank lending and equities but also possible losses on rouble hedging contracts between foreign investment banks and Russian banks, most of which would be unable to honour their liabilities.

One senior US banker said the action would not be forgotten. "I don't think anybody's going to lend these guys a dime," he said. The move also raised serious questions about whether other



Lines grew longer outside banks in Moscow yesterday as the rouble fell further

Picture: AP

contracts would be honoured, he said. Mark Mobius, head of emerging market investment at Franklin Templeton, a leading fund manager, said Russia had lost the trust of investors.

Mr Druckenmiller, however, was not critical of the government. "We took a risk and we were wrong," he said. Mr Soros warned in a letter published in the FT two weeks ago that Russia's financial turmoil had reached a "terminal phase".

CSFB yesterday said net profit so far in 1998 had plunged from \$754m at June 30, after the first

half, to \$500m. CSFB, which along with its clients accounted for 40 per cent of foreign ownership of the \$40bn Russian government debt market, is believed to have lost at least \$350m - and perhaps as much as \$500m - in Russia since June.

Andrew Ipekman, the bank's head of global emerging markets, said: "Russian elites have plundered the country's capital and funnelled most of the proceeds offshore."

Traders estimated hedge funds would sustain about 25 per cent of the losses. The rest would be

borne by foreign investment banks and US funds.

Among investment banks, Goldman Sachs said exposure to Russia was "immaterial". JP Morgan, Bankers Trust, Merrill Lynch, Morgan Stanley Dean Witter and Lehman Brothers all declined to comment. Analysts said any firms with very large losses would probably feel obliged to make statements.

Reporting by Philip Coggan, Tracy Corrigan, Clay Harris, William Lewis, Edward Luce and John Thornhill

## Chernomyrdin in urgent talks with IMF

By John Thornhill in Moscow and Gerard Baker in Washington

Victor Chernomyrdin, Russia's acting prime minister, yesterday held emergency talks with the International Monetary Fund as the rouble plummeted again on Moscow's currency market and the country's political crisis deepened.

The IMF was likely to agree to a renegotiation of the terms of its loan to the country in the aftermath of the rouble's devaluation, according to a senior US monetary policy maker.

Breaking off talks with parliamentary leaders in Moscow about the formation of a new government, Mr Chernomyrdin travelled to the Ukrainian peninsula

of Crimea to meet Mikhail Gorbachev, the IMF's managing director. Mr Gorbachev was in Crimea to discuss the regional economic turmoil with Leonid Kuchma, president of Ukraine.

Russia appears desperate to accelerate the release of the next tranche of the IMF's \$11.2bn support loan - due in September - before its hard currency reserves evaporate.

The central bank yesterday suspended and then annulled all trades in US dollars on the Moscow Interbank Currency Exchange after the rouble fell by 5 per cent. But trading continued in other currencies and the rouble lost 41 per cent of its value

against the D-Mark, falling from 4.49 to 7.6 after the central bank indicated it would preserve its reserves and allow the currency to find its natural "floor".

Mr Chernomyrdin yesterday criticised the central bank for its handling of Russia's financial crisis. "Financial and economic policy is a question to which I am giving my attention minute-by-minute. I declare that I am extremely dissatisfied with the work of the central bank over the last two days," he said.

William McDonough, the president of the New York Federal Reserve and a key figure in the international response to the Russian crisis, said "some tuning" of the IMF programme was

more likely than not. He said: "I'd be surprised if the IMF did not enter into new negotiations that could bring a modification of the fund programme."

Mr McDonough said the immediate economic effects of Russia's problems for the rest of the world should be limited. But he said the real risk was the psychological effect on other emerging markets, driven by investors' "irrational" fears of contagion.

Theo Waigel, Germany's finance minister, appeared to rule out the possibility of additional foreign aid. "Russia must do it by itself," he said. As Mr Chernomyrdin tried to hold Russia's crumbling financial markets together, President Boris

Yeltsin was said to be working at his country dacha. Mr Chernomyrdin intends to address the nation in the near future, heightening speculation about the president's state of health.

David Riley, director of Fitch IBCA, said his credit rating agency had lowered its sovereign rating for Russia from B minus to CCC. That indicated Russia now ranked as the riskiest of the 90 countries covered by the agency, including Indonesia.

Russian dollar-denominated firms, or restructured Soviet-era debt, were yesterday trading at little more than one-tenth of their face value. The RTS-IF index of leading shares fell by more than 13 per cent.

## US lawyers prepare Nazi labour lawsuits

By Graham Bowley in Frankfurt and Johnathan in New York

Several German companies could face legal action - probably next week - over use of slave labour during the second world war, US lawyers warned yesterday.

Michael Hausfeld, the Washington lawyer who took a leading role in persuading the two largest Swiss banks to pay \$1.2bn to Holocaust survivors earlier this month, said he was preparing complaints against "six or seven" companies by survivors of factories used for the Nazi war effort.

While German companies insist they face no legal obligation to pay compensation directly to former slave labourers, several possible targets, such as Daimler-Benz, Volkswagen and BMW, have said they would be prepared to contribute to funds for former slave labourers. The plaintiffs include US, British and Dutch citizens, many of them non-Jews.

Mr Hausfeld said lawyers were in the closing stages of research to decide which companies it would be best to pursue. "In a week we will have about six or seven complaints running," he said.

While German companies are most likely to be sued, Mr Hausfeld said French and even US companies which now have German subsidiaries might be involved. Earlier this year, Ford Motor and its German subsidiary were sued in the US over war-time slave labour, in the first

action of its kind. A motion to dismiss this case will come to court on September 22.

Mr Hausfeld made plain that lawyers hoped for a faster and more consensual resolution than achieved with the Swiss banks. "We want to invite them to a global meeting and request that they give the highest priority to resolving this without the need to resort to litigation," he said. "We are prepared to go to litigation, however."

German companies have been braced for the possibility of demands from slave labourers, or *Zwangarbeiter*, after Degussa, the industrial conglomerate, was hit by a lawsuit in the US last week. The suit alleged it made poison gas used in concentration camps and processed gold taken from victims of the Nazis.

Several companies acknowledged that slave labourers worked in their factories during the war, but many argue that responsibility for compensation should lie with the government as the legal successor to the Third Reich.

But Helmut Kohl, German chancellor, insisted last week that payments to former slave labourers were the business of individual companies.

Volkswagen, which has said it would set up its own compensation fund, estimates 17,000-20,000 slave labourers from countries such as Poland, Russia, Ukraine, and France worked in its factories between 1941 and 1945, of whom about 1,000 survive.

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STOCK MARKET INDICES			
New York Composite	8327.00	↓ 65.65	(-0.79%)
Dow Jones Ind. Avg.	8327.00	↓ 65.65	(-0.79%)
US100 Composite	1781.57	↓ 11.15	(-0.62%)
Europe and Far East			
FTSE 100	2912.17	↓ 11.15	(-0.38%)
Nikkei 225	14,800.03	↓ 109.03	(-0.74%)
ASX All Ordinaries	5,582.5	↓ 109.03	(-1.94%)
US 3-month Treasury Bill	5.0625%		
3-month Euro Rate	5.0625%		
Long Term	100%		
Yield	5.449%		
OTHER RATES			
3-month Interbank	112.850	(112.850)	
3-month US\$	106.65	(106.65)	
3-month £	107.29	(107.29)	
3-month ¥	112.35	(112.35)	
3-month S\$	112.35	(112.35)	
3-month HK\$	112.35	(112.35)	
3-month AUD\$	112.35	(112.35)	
3-month NZ\$	112.35	(112.35)	
3-month CAD\$	112.35	(112.35)	
3-month CHF	112.35	(112.35)	
3-month SEK	112.35	(112.35)	
3-month NOK	112.35	(112.35)	
3-month DKK	112.35	(112.35)	
3-month ISK	112.35	(112.35)	
3-month FIM	112.35	(112.35)	
3-month ILS	112.35	(112.35)	
3-month TRY	112.35	(112.35)	
3-month ZAR	112.35	(112.35)	
3-month BRL	112.35	(112.35)	
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3-month UZS	112.35	(112.35)	
3-month KZT	112.35	(112.35)	
3-month TJS	112.35	(112.35)	
3-month GEL	112.35	(112.35)	
3-month AMD	112.35	(112.35)	
3-month BYN	112.35	(112.35)	
3-month UBY	112.35	(112.35)	
3-month UZB	112.35	(112.35)	
3-month KGS	112.35	(112.35)	
3-month MVR	112.35	(112.35)	
3-month INR	112.35	(112.35)	
3-month PKR	112.35	(112.35)	
3-month LKR	112.35	(112.35)	
3-month BDT	112.35	(112.35)	
3-month NPD	112.35	(112.35)	
3-month BNP	112.35	(112.35)	
3-month BGD	112.35	(112.35)	
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3-month YWP	112.35	(112.35)	
3-month ZWP	112.35	(112.35)	

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# WORLD NEWS

## EUROPE

RUSSIAN DEBT BANKING SYSTEM COULD SEE NEARLY \$12BN ERASED ALONG WITH NEARLY ALL LIQUID ASSETS

### Banks crippled by restructuring plan

By Tracy Carrigan in New York, Charles Clover in Moscow and Jeremy Grant in London

The Russian government's plan to restructure its short-term treasury bill debt could erase as much as \$12bn from the country's banking system, along with virtually all its liquid assets. It could also wipe out between \$13bn and \$16bn in foreign-held domestic debt, analysts said yesterday.

As financial institutions continued to express their dissatisfaction with the restructuring, Robert Horvath, vice-chairman of Goldman Sachs International, called for greater dialogue between the Russian government, Russian banks and international institutions. Russian banks held half of the treasury bills affected by this week's restructuring, while the central bank and foreign investors each held about a quarter.

Holger Mueller, a banking analyst with Flemings UCB, the Moscow investment company, said that the new securities were worth 80 per cent less than the old treasury bills. The \$40bn face value of the instruments covered in the restructuring had a market value of \$31.2bn on August 14, the day the government announced its intent to restructure. Depending on the future course of the restructure, Mr Mueller estimated that the new securities could be worth as little as \$6.2bn.

Russia's banks have been crippled by the restructuring, under which the government has effectively confiscated securities which the banks relied upon to fund their daily operations. The central bank is now faced with the unenviable alternative of either prop-

ing up the banks by increasing the money available to them, which would ultimately be used to buy dollars, or watch them collapse. On Tuesday the bank chose the former course - and watched the rouble fall as the new money flowed into dollars.

The debt restructuring was designed as a way of reducing Russia's crippling short-term repayments by forcing domestic and foreign holders of high-yielding treasury bills maturing before the end of 1999 to swap them for longer-dated paper that earns less.

### Fears rouble could fall much further

By John Thornhill in Moscow and Simon Kuper in London

The rouble could fall much further, currency strategists said yesterday. It has already in effect fallen below the band of 6 to 9.5 roubles per dollar that Russia announced when it devalued 10 days ago.

In the offshore market yesterday international banks were selling roubles at about 13 to the dollar. That implies a devaluation of about 50 per cent since the start of the month.

Last week, Russia had indicated that it would devalue by only 34 per cent by the end of the year.

On the Moscow Interbank Currency Exchange (MICEK) the rouble fell 5 per cent against the dollar before trade was suspended and all deals declared void.

The central bank set no central rate for the rouble against the dollar yesterday, and announced a rate for today of 7.95 - unchanged from Tuesday.

### SPD promises Germans small tax reforms or none

Opposition says if it loses the election it will continue to block Kohl's plans, writes Tobias Buck



Almost everyone agrees: Germany's tax system is a shambles. Income tax rates are high by almost any standard and a myriad of tax breaks and loopholes make the system unfair and complicated. In fact, that even Roman Herzog, the federal president and former tax expert at Germany's constitutional court, has admitted to difficulties in filling out his tax form.



Orchestrating changes: Theo Waigel, finance minister, promised to make the election a plebiscite on government tax reforms

Reform has been on the agenda for more than a year. The Social Democratic party, long blocked government hopes for a "reform of the century" in the Bundesrat, Germany's second legislative chamber representing the federal states, or *Länder*. Chancellor Helmut Kohl and Theo Waigel, his finance minister, promised to make the general election - now just a month away, on September 27 - a plebiscite on their tax reform plans.

Lafontaine ruthlessly brought the SPD *Länder* chiefs into line. Mr Kohl and Mr Waigel were furious. Never before, they raged, had an opposition leader in the Bundesrat in such a destructive and cynical way.

The proposals by Mr Kohl's Christian Democrat Union and its Bavarian sister party, the Christian Social Union, look surprisingly radical, particularly as far as Germany's famously high income tax is concerned: the top income tax rate would be cut from 53 per cent to 38 per cent, the bottom rate from 25.9 per cent to 15 per cent.

Mr Waigel claims the government's plans would give German taxpayers an overall tax relief of DM30bn (\$16.5bn), despite a widespread pruning of tax advantages and write-offs.

The SPD, too, has promised income tax cuts, albeit on a less generous scale. The top rate would be cut to 49 per cent, the bottom rate to 21.9 per cent initially and later to 15 per cent. Gerhard Schröder, the party's candidate for chancellor, has repeatedly said he would like to see the top rate lowered further, but the party has now decided that more cuts will come only after a thorough examination of the nation's finances.

With the SPD's chances of winning the chancellorship better than at any time during Helmut Kohl's 16 years in power, the last thing Mr Lafontaine wanted was a vote-winner for the government. To the dismay of many Social Democrats, Mr

in order to help finance a cut in business's non-wage labour costs and so price people back into jobs. But tax experts doubt whether the SPD's limited tax cuts will help tackle what is perhaps the most harmful effect of the country's tax system - a decline in tax morality. As Erwin Huber, the Bavarian finance minister, once quipped: "The Germans' instinct for tax evasion is stronger than their urge to reproduce."

Thanks to an army of 53,000 tax advisers, many wealthy Germans manage to avoid paying any income tax at all, while workers have been driven into a buoyant black economy. This leaves the finance ministry with a gradually shrinking tax base and revenue shortfalls.

While most economists appear to agree that the government's tax reform offers better chances for growth, investment and job creation than the SPD's cautious approach, recent opinion polls suggest that voters

regard the SPD as more competent in tax matters. This reversal of fortune - for years the SPD had to fight an image of tax-and-spend - has a lot to do with last year's events. Germans have put the blame for the failed reform package on the government and not, as Mr Kohl hoped at the time, on Mr Lafontaine.

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Should Mr Schröder become chancellor, as recent opinion polls suggest he may, the SPD also wants to introduce an "ecological tax reform" to raise taxes on energy and fuel consumption

in order to help finance a cut in business's non-wage labour costs and so price people back into jobs. But tax experts doubt whether the SPD's limited tax cuts will help tackle what is perhaps the most harmful effect of the country's tax system - a decline in tax morality. As Erwin Huber, the Bavarian finance minister, once quipped: "The Germans' instinct for tax evasion is stronger than their urge to reproduce."

Thanks to an army of 53,000 tax advisers, many wealthy Germans manage to avoid paying any income tax at all, while workers have been driven into a buoyant black economy. This leaves the finance ministry with a gradually shrinking tax base and revenue shortfalls.

While most economists appear to agree that the government's tax reform offers better chances for growth, investment and job creation than the SPD's cautious approach, recent opinion polls suggest that voters

### ROMANIAN ECONOMY FINANCE AND PRIVATISATION CHIEFS ATTACKED FOR SLOW PACE OF REFORM

### Premier threatens to sack ministers

By Stefan Wagstyl and Virginia Marsh in Bucharest

Radu Vasile, the Romanian prime minister, has threatened to dismiss his finance and privatisation ministers, fuelling concern about the stability of his four-month-old government and the slow pace of economic reform.

In an interview with the FT, Mr Vasile said he was unhappy with the performance of Daniel Dainanu, the finance minister, and Sorin Dumitriu, who is responsible for privatisation.

He accused Mr Dainanu, a Harvard-educated economist, of delaying the preparation of new legislation, and Mr Dumitriu of pursuing privatisation too slowly.

Mr Vasile said: "I want to have very decisive and energetic people in my government - people who don't just talk about things but people who take measures."

While Mr Vasile said he was planning an early cabinet reshuffle, bankers in Bucharest were divided about whether he would carry out his threats, especially with regard to Mr Dainanu, internationally the

best known reformer in the government. Mr Dainanu declined to comment directly on Mr Vasile's attack but said his ministry was "not more bureaucratic than others" and had to take its time about responding to requests for funds.

Communists in 1996, amid high hopes that it would accelerate reform. Political rows have sapped business confidence at a time of deep recession. GDP fell 6.5 per cent last year and is expected to drop a further 4 per cent in 1998. The Bucharest stock market has fallen by more than 50 per cent in US dollar terms this year.

Mr Vasile recognised his government would continue to suffer from ill-fighting but pledged to "keep together this very difficult coalition". The prime minister, a 55-year-old former economics

professor, emphasised that economic reform remained his top priority.

The main challenge was restructuring big state monopolies, such as electricity and gas utilities, which were being prepared for eventual partial privatisation. The other two priorities were macroeconomic stabilisation and privatisation.

The privatisation plan includes sales to foreign investors this autumn of stakes in Rom Telecom, the telecommunications company, and of two banks, as well as smaller disposals.

### UN concern over Serbian 'rights abuses'

By Guy Duggan in Pristina

Evidence is mounting of systematic human rights abuses against ethnic Albanians arrested in Serbia's Kosovo province on suspicion of links with separatist rebels. Police have released the bodies of four men who have died in custody since last month, but many others are missing.

for stomach cancer. But pictures taken of his corpse show him lying on a blood-stained sheet with extensive bruising and two holes in his abdomen.

While the Yugoslav army and Serbian police units continue to bombard and burn ethnic Albanian villages used by the Kosovo Liberation Army, police have rounded up hundreds of suspects.

Defending Mr Duguli was Destan Rukliqi, Kosovo's most prominent human rights lawyer, who was arrested after an argument with Judge Danica Markovic while seeking access to records of his client's testimony during investigation.

Mr Rukliqi was sentenced to two months in jail for insulting the state and Mrs Markovic. He alleges that guards beat him unconscious on his back and legs with truncheons and then put him in solitary confinement.

Finally he was transferred to hospital and given kidney dialysis, then released last weekend.

"They want to scare us lawyers not to protect the victims. The police, prosecutor and judge are all the same. It is an illusion to believe there is a neutral judicial system," he said, lying in bed at home, still with catheters inserted.

Mrs Markovic denied that Mr Rukliqi or anyone else had been beaten in prison and insisted that all deaths in custody were of natural causes.

The Serbian judicial system was so corrupt and fair, she maintained, that there was nothing for the UN to investigate.

"Some people, after they are released following their jail term, come and thank me and say hello to me in the street," she added. "When they go abroad they send me postcards and greetings."

### NEWS DIGEST

#### FRANCE AND GERMANY

### Chirac in call to adapt relations to new Europe

President Jacques Chirac yesterday called for a "renovation" of Franco-German relations, saying current structures should be adapted to the new conditions in Europe.

The French president told a meeting of French ambassadors at the Elysee Palace that France should propose "new ever more ambitious paths" to maintain the understanding and co-operation between the two countries.

He said relations between Paris and Bonn were more fundamental than ever to the European project. He would raise the proposed renovation with the German chancellor after the approaching German elections. "We will have to clarify the goals and rethink the means of our co-operation in order to reinforce our common destiny and our capacity to lead Europe together."

His comments came some seven weeks after Paris was shaken by a ground-breaking agreement by the Frankfurt and London stock markets to form a single European platform to trade equities. The move suggested to French decision-makers that they could no longer determine the pace of change in France on their terms.

In a wide-ranging speech, Mr Chirac also said next April's Nato summit in Washington should be used to assert Europe's identity more clearly. David Owen, Paris

#### ITALY SEEKS GROWTH

### Euro tax reimbursement plan

The Italian government is to bring forward plans to reimburse citizens with part of a one-off euro tax it levied last year. It announced yesterday, admitting it needed to find new ways of boosting consumer spending and economic growth in 1998.

Italy's centre-left government levied the euro tax in 1997 in order to ensure that the country met budget deficit criteria for entry to a single currency. The government has always promised that, once into the euro, it would gradually reimburse citizens with 60 per cent of the tax by the end of 1999.

Vincenzo Visco, finance minister, said yesterday ministers had now decided to hand back 60 per cent of the tax in a single cash payment early next year, at a cost to the treasury of L3,000bn (\$1.7bn), "so we can give another boost to demand growth," he told the Milan daily *Corriere della Sera*. James Blitz, Rome

#### BERLIN WATER UTILITY

### Merrill Lynch to advise on sale

Berlin's city government yesterday appointed Merrill Lynch, the US investment bank, to advise on the privatisation of the German capital's water utility, Berliner Wasser Betriebs (BWB). The appointment reflects the city's interest in attracting foreign investors for BWB and follows earlier privatisations of Berlin's electricity and gas utilities in which non-German companies were involved. Berlin intends to sell 49 per cent of BWB. As much as 10 per cent will be reserved for customers and employees. The remaining 39 per cent will be sold to at least two investors who can hold a maximum single stake of 25.1 per cent.

The city has not set a deadline for the sale but wants to include the financial proceeds in the 1998 financial year. Officials would not comment on price expectations but local newspapers report the city hopes to raise DM2bn (\$1.1bn) from the sale. Frederick Stüdemann, Berlin

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## INTERNATIONAL

## Congo rebel forces infiltrate Kinshasa

By Michel Wrong in Kigali

The war in Democratic Republic of Congo finally reached the riverside capital of Kinshasa yesterday as rebel forces, pressed hard from behind by advancing Angolan troops, infiltrated the east of the city.

The boom of heavy artillery and bursts of automatic fire echoed across the city of 5m people and helicopter gunships buzzed overhead as the guerrillas attacked two suburbs near the city's airport in what diplomats described as a "desperate act". The rebels, who have

been on the run since Angola and Zimbabwe entered the fray in President Laurent Kabila's defence last weekend, first tried to enter Kinshasa from the south-west, but shifted their line of attack after being repelled by Congolese and Zimbabwean troops.

Having lost control of Kikoma, the air base linking them with their strongholds in eastern Congo, and with a heavily equipped Angolan force harrying them from the southwest, advancing was one of the few options left open. State radio referred to the fighting as

"mopping up operations" and Didier Mumbengi, information minister, played down the infiltration, telling state radio that enemy soldiers cut off from their rear base had taken refuge in a nearby forest.

But hundreds of soldiers with bullet and shrapnel wounds were reported to be pouring into Kinshasa's general hospital, evidence of the first serious fighting in a conflict characterised until recently by brief skirmishes and tactical retreats.

Aware of the approaching showdown, nervous residents ignored government

advice to go about their business as usual, staying off the deserted boulevards and closing their shops. Security near the Marble Palace, Mr Kabila's residence, was reinforced.

With the trapped rebels facing either surrender or massacre, regional analysts were watching to see whether Rwanda and Uganda, the movement's clandestine backers, would carry out threats to intervene openly in the conflict, a move that would escalate the war yet further.

But there were hints yesterday that the two allies

were reassessing the situation created by the southern African military intervention and reportedly coming to terms with the prospect of a Congo still under Mr Kabila's rule.

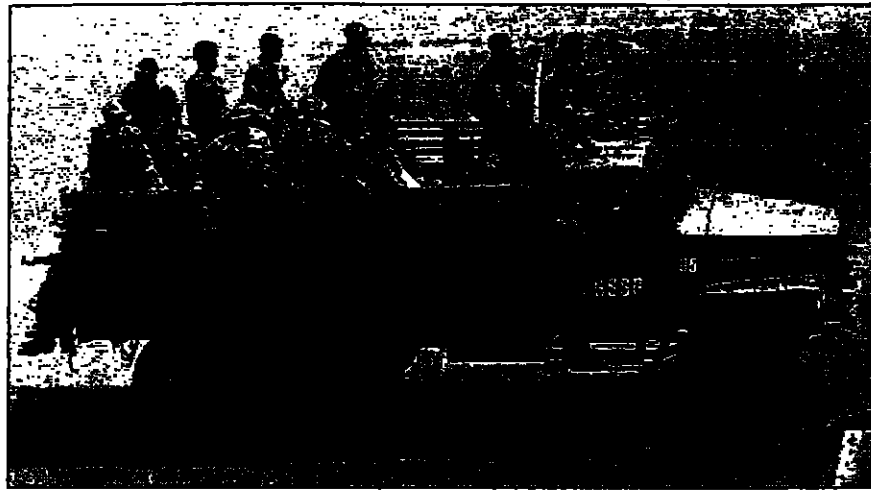
In Kigali, where officials were privately insisting last week that Mr Kabila "must go", Patrick Mazimhaka, a presidential adviser, said Rwanda would defend itself "when we feel our country is threatened, if it is under attack or if there is sufficient evidence that its attack is being planned".

But he refused to specify at what point Kigali would

regard its security interests as under threat.

Sensing victory within its grasp, an ebullient Congolese government announced that the allied forces had recaptured a string of key towns in the west, including the ports of Matadi and Banana, the Kikoma airbase and the oil town of Mwanda.

But South African intelligence officials said Matadi was still in rebel hands and that the central city of Kinshasa, reported on Tuesday to have fallen to the allied forces, had been badly bombed but remained under rebel control.



Congolese soldiers on their way towards fighting at the international airport in Kinshasa yesterday AP

## Democratic S Africa finds its neighbours hard to convince

Lack of enthusiasm for Congo peace plan shows up Pretoria's problems as regional superpower, writes Victor Mallet

South Africa's four-year-old democracy is fast discovering that the role of regional superpower in Africa is as frustrating and unrewarding as the job of global superpower is for the US. If the government of President Nelson Mandela takes decisive military or diplomatic action, it risks accusations from its neighbours of bullying and interference; if it does not, it is criticised as callous and ineffective.

That is one reason why South Africa is having such difficulty persuading other African countries to adopt a peace plan for Democratic Republic of Congo that is regarded as eminently sensible by most foreign powers. It compels a re-evaluation of negotiations between Congolese parties leading to elections.

"South Africa is doing what we expect of a country that is a full democracy," says Greg Mills, national director of the South African Institute of International Affairs. "We're doing the right thing. We've managed to hammer out some sort of basis for a settlement."

Unfortunately neither Eduardo dos Santos nor Robert Mugabe, the Angolan and

Zimbabwean leaders who have defied Mr Mandela and sent their armed forces into Congo to support the beleaguered government of Laurent Kabila against a rebel onslaught, preside over "full democracies"; neither has consulted his own people on the wisdom of a foreign war. But that is not the only reason for the region's lack of enthusiasm for the South African peace plan. Like Japan in post-war Asia and Germany in Europe, South Africa is often regarded with intense suspicion by its poorer and weaker neighbours.

South Africa's economy is 20 times the size of the next biggest in the 14-nation Southern African Development Community, and three times as large as all the other members put together. Not all African leaders have been happy to see South African banks, brewers, mining companies and supermarket chains pouring investment into their countries after the end of apartheid and the lifting of economic sanctions against Pretoria.

Nor have they forgotten the military might the former regime wielded in southern Africa, occupying

Namibia, supporting anti-communist rebels in Angola and Mozambique, and frequently launching raids and air strikes into neighbouring countries in pursuit of African National Congress guerrillas.

As a director of one of the big South African conglomerates with interests in southern Africa put it this week: "All the countries are very worried that South Africa will just take an exceedingly dominant role. I don't think that feeling is going to disappear."

South African foreign policy is undermined by other problems as well. President Mbeki, who is leading a rival faction within SADC in opposition to South Africa's attempts at peacemaking, gets on particularly badly with Mr Mandela - probably because he resents having been eclipsed as the region's leader since apartheid ended and Mr Mandela came to power in 1994.

Another weakness is the ineffectiveness of the South African foreign ministry under Alfred Nzo, the 73-year-old minister. "He's not dynamic enough to really push things through," says one foreign diplomat. The charming but imperious Mr

Mandela often creates policy on the spot in his discussions with other world leaders, leaving the foreign ministry stumbling behind with no idea what is happening.

Lastly, there is no consensus within the ANC about the direction the country's foreign policy should take. On the one hand, as a free-market democracy, South Africa frequently adopts positions in tune with those of the western powers. The US and Europe therefore see South Africa as a friendly nation that can represent their interests in Africa, while left-leaning African governments - including those of Zimbabwe and Congo - mock South Africa as an agent of the US.

On the other hand, Mr Mandela and the ANC remain loyal to countries that supported them during the fight against apartheid - including enemies of the US such as Cuba and Libya - while the ANC's communist and trade union allies are still wedded to old-fashioned socialism.

The result is a muddle, with South Africa's international policies wobbling between pro-western positions and traditional third-worldism. (It hosts the Non-Aligned Movement summit in Durban next week.)

To make matters worse, South Africa's dream of an "African Renaissance" - a flowering of democracy, culture and economic growth across the continent - is in tatters following the outbreak of wars in eastern, western and central Africa.

Only a rapprochement with Gen Abdulsalam Abubakar, the Nigerian military ruler who has promised to return

his country to democracy, holds out a glimmer of hope. Pretoria, aware of the sensitivities of its neighbours, has deliberately adopted a low-key style of diplomacy in Africa. "In the region, it's been an 'after you' approach," says Mr Mills. Such tactics cut little ice with the growing number of belligerents involved in the Congo war, but it is hard to see how a more robust diplomatic drive would do anything other than antagonise South Africa's rivals still more.

Only a disaster for one or more of the foreign armies embroiled in Congo is likely to persuade other African governments that South Africa - still struggling to bring the parties to the negotiating table - is not such a malevolent regional superpower after all.

## WORLD TRADE

## AVIATION MOVE AHEAD OF BA-AA ALLIANCE

## Pilots unite in face of airlines' link

By Robert Taylor and Guy de Jongh in London

Trade unions representing 24,000 pilots employed by British Airways, American Airlines and their nine partner carriers have formed a global strategic coalition, it was announced yesterday.

The move is seen by the unions as a precautionary action before confirmation that the two main airlines have secured the go-ahead for forming the largest alliance in aviation history.

"We have come together to protect ourselves if the BA-AA alliance goes ahead," said Chris Darke, general secretary of Bupla, the UK

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appropriate actions to protect each other's interests."

The unions involved also pledged to "avoid any action that would undermine" any other member association or pilot group that belongs to the alliance.

Meanwhile, several large US airports are opposing restrictions, which the European Commission is considering imposing on the BA-AA deal and the alliance between United Air Lines, Lufthansa and Scandinavian Airlines Systems, saying the plan could harm international air services.

The airports object to a proposal to require the two alliances to reduce for six months the frequency of their weekly flights on certain transatlantic routes, if asked to do so by a competitor.

The airports, Chicago O'Hare, Dallas-Fort Worth, Miami and Washington Dulles, say in a letter to the Commission that the proposal would disrupt existing air transport arrangements without increasing competition.

They say many local communities in the US would suffer a reduction in transatlantic services, because new competitors would be unable to provide the domestic feeder links from international "gateway" cities, which the members of the alliances operate.

The airports, which are "hubs" for either American or United, accuse the Commission of underestimating the benefits of airline alliances, which they say have led to substantial increases in traffic on several popular transatlantic routes.

Airport authorities in Los Angeles and New York may also join the protest against the EU proposals. The Commission, which gave conditional approval to the two alliances last month, is expected to decide on the proposals later this year.

## Aid for defence rationalisation urged

By Alexander Nicoll, Defence Correspondent

European governments should aid rationalisation of the defence industry by offering tax concessions similar to those provided by Washington to assist restructuring by US defence manufacturers, the Society of British Aerospace Companies (SBAC) said yesterday.

The industry body said the US government provided tax concessions worth \$170m out of total restructuring costs of \$849m up to September

1996 following a rapid series of mergers and acquisitions which was spurred by the Pentagon.

"Similar assistance would be of considerable benefit to European companies," the SBAC said in a paper. If such direct help was unavailable, governments should back pan-European assistance such as stepped-up support for research.

Governments are pressing for consolidation of the overcrowded European aerospace and defence industry, but

the biggest barrier remains French state holdings even after Paris last month agreed to divest a majority of Aerospatiale.

Though the SBAC argued rationalisation must be driven by commercial principles, it said: "It may be necessary to make some concessions to assuage French concerns, especially in the area of long-term commitment to core European programmes and to European-level technology acquisition."

SBAC officials said this

week's decision by British Airways to make its first purchase of Airbus aircraft was likely to help demonstrate such a commitment.

The society called for a common European defence procurement policy to aid industry rationalisation, but cautioned against a "fortress Europe" mentality and said UK industry must retain access to its access to the US market.

SBAC figures published yesterday showed the UK aerospace industry last year overtook France's to become

Europe's biggest, with 12.5 per cent of the total turnover of companies in Europe, North America and Japan. The US share was 54.9 per cent and France's 11.6 per cent. UK aerospace industry turnover rose 8 per cent in real terms in 1997 to £15bn, while direct employment rose marginally to 121,000.

Civil aerospace has been steadily closing the gap on military aircraft and now accounts for 46 per cent of turnover. The UK industry's operating profit margin was 7.1 per cent in 1997.

SBAC figures published yesterday showed the UK aerospace industry last year overtook France's to become

## Corporate strategists turn to Latin America for bargains

As clouds gather over Asia, key investment decision-makers are looking to other emerging markets, writes Emiko Terazono

Emerging markets may have become dirty words among global portfolio managers but financial planners are finding that they are not such a bad place to be.

The sharp fall in currencies and equity prices has made assets in emerging markets around the world affordable, and economic reforms led by the International Monetary Fund have forced governments to open up what used to be highly protected markets to foreign investment. Although net capital flows to developing countries have declined, strategic investment activity has increased sharply.

However, after a record number of cross-border strategic investments in 1997 and the first half of this year, some analysts warn that there may be a few clouds gathering over Asia, and the flow of corporate deals may be concentrated in Latin America.

There is a huge bottleneck in investment in Asia because of insufficient legislative infrastructure and increasing disagreements over prices between investors and sellers, says Haim Katsi, analyst at the World Bank. The announcement last week by the Indonesian government prevent-

ing overseas investors from purchasing a majority stake in Semen Gresik, the state-owned cement group, highlighted the pressures on governments not to sell national assets to foreigners and has raised questions over the speed and extent of privatisations in Asia.

Although Asia has seen a surge in interest from western corporate investors, and numerous negotiations are being held, investment bankers point out that only about a third manage to reach an agreement.

Latin America, on the other hand, does not have the structural barriers and is benefiting from the sheer size of the transactions, led by privatisation deals in countries including Brazil.

"The market accessibility is definitely there. They have a longer history of inward investment," says one investment banker.

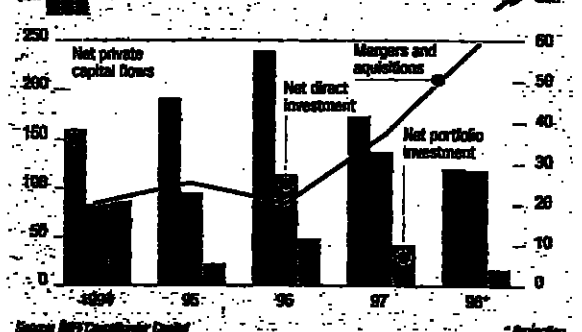
The second half has already seen big deals, including the privatisation last month of Telebras, Brazil's state-owned telecommunications operator, which raised \$19bn, and ABN Amro's purchase of Banco Real, the Brazilian banking group, for \$3bn. "It is where it's happening. Everyone wants a foothold," says a banker based in New York.

Foreign investment into the region is expected to total \$500bn this year, according to bankers. Although the recent market volatility may lead to some delays, Brazil is planning the sale of electricity generators controlled by the state-owned Eletrobras, while the Ecuadorian government has announced it will attempt to revive telecom sales in the next six months. Interest is high in the telecommunications, utilities and financial sectors, according to Roger Ullman, who heads Merrill Lynch's M&A operations in Latin America.

While Asia is currently experiencing a second wave of investors attracted by cheap prices - many multinationals are already established in the region - companies in search of investments in Latin America do not find the declines in prices a big factor, say bankers. Corporate investors looking to go global such as Telefonica of Spain and Unisur, the French steel group, are seeking intrinsic value, says Mr Ullman.

Although some investment announcements have come out of Asia over the past month - British Telecom announced its \$250m (\$410m)

## Emerging markets: net capital flows



investment in Binarian, a Malaysian telecom company, while Holderbank of Switzerland bought a 25 per cent stake in Siam City Cement, a leading Thai cement maker, for \$150m - other stumbling blocks for corporate investors also remain.

That said, multinational companies are acutely aware of the other side of the coin - the risk of missing the current opportunity in Asia. In Asian markets, where economies are relatively small, the number of assets a multinational corporation can buy is limited.

The urgent need to raise capital is forcing some of the Asian governments to try to push through legislative changes to allow smoother foreign investment.

M&A activity in banking and financial services in the first half was one of the most important sectors for Asia, according to Flemings, the US investment bank. With the Thai government plans to restructure its banking system, strategic invest-

ments in the sector are likely to rise.

Among deals in the pipeline in Asia is Kia Motors, the defunct Korean group in which Ford, the US carmaker, has indicated interest. Private equity funds for longer-term returns in non-listed companies are also being set up. "Based on the transactions we've got in hand, we expect the second half to be as busy as the first," says David Lowes, director of investment banking at Flemings.

Bankers note that the huge competition in Latin America, especially for privatisation deals, is leading to razor-thin margins for the corporate financiers. Asian transactions may be smaller but some are more lucrative.

The flow of cross-border deals is likely to continue for the next two to three years, says Mark Pawley of Credit Suisse First Boston's global emerging markets group. "Although people are trading carefully, there is a lot of value to be had."

## NEWS DIGEST

## CAPE TOWN BLAST

## FBI to help find Planet Hollywood bombers

Agents of the US Federal Bureau of Investigation were on their way to the South African tourist resort of Cape Town last night to help find the perpetrators of the bomb blast in a Planet Hollywood restaurant which killed Farie Schoeman, an employee of Standard Bank, and injured 27 other people on Tuesday.

South African officials said the device - apparently planted by local Islamic extremists following the bombings of US embassies in east Africa and retaliatory missile attacks by Washington on Sudan and Afghanistan - was probably a home-made "pipe-bomb".

Criminal gangs operating in the Cape flats area behind Table Mountain have exploded dozens of such bombs in recent weeks in feuds over control of the drug trade. Two recent weeks in feuds over control of the drug trade. Two recent weeks in feuds over control of the drug trade. Two recent weeks in feuds over control of the drug trade.

While political leaders in South Africa and overseas condemned the bombing, South African tourist organisations took stock of the damage to the country's vital tourism industry. Victor Mallet, Johannesburg

## LOCKERBIE TRIAL

## Libya asks for more time

Libya has asked the United Nations Security Council to delay a decision on the Lockerbie case until it can study American and British documents on handing over two suspects to the Netherlands for trial in the 1988 bombing of an airliner.

In a letter to the Security Council received late on Tuesday night, Ramadan Barg, Libyan chargé d'affaires, said he was surprised to learn of a draft resolution, proposed by the US and Britain. He said Libya was anxious to resolve the dispute and needed "sufficient time" to study the documents detailing the offer to hold the trial in the Netherlands under Scottish law by Scottish judges.

After a Council session yesterday, Stephen Gomersall, Britain's deputy representative to the UN, expressed hope for the "acceptance of the proposal by the government of Libya and the eventual resolution of the dispute". Laura Silber, New York

## ABU NIDAL

## Egypt denies holding guerrilla

Speculation over the whereabouts of Abu Nidal, the Palestinian guerrilla chief, mounted yesterday as Egypt denied it was holding him in detention and said he was not even in the country. Amr Moussa, Egypt's foreign minister, was commenting on fresh reports that Abu Nidal, wanted in several countries for attacks on Israeli and other targets, was being held in Egypt.

Abu Nidal, whose real name is Sabri al-Banna, heads the Fatah Revolutionary Council, one of 12 groups which had its assets frozen by President Bill Clinton in 1995 for waging campaigns to undermine the Middle East peace process. He has been linked with bombings and assassinations in a global guerrilla campaign that was launched in the mid-1970s. International Staff

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# US durable goods orders move ahead

By Adrian Michaels  
in Washington

New orders for manufactured durable goods rose at their fastest rate for eight months in July, the US Commerce Department announced yesterday. However, while orders were driven by strong demand for electrical machinery and aircraft, the underlying trend still pointed to a slowdown in manufacturing activity.

Total orders increased \$4.4bn from the previous month, or 2.4 per cent, to \$187.5bn, following a 0.3 per cent increase in June. But orders for non-defence capital goods excluding aircraft, which give a clearer picture of manufacturing industry, were down 1.5 per cent.

The rise in total orders was largely explained by a large jump in the electronic and other electrical equipment sectors, up 12 per cent to \$33.8bn. Industrial machinery and equipment,

up for the second consecutive month, increased 2 per cent to \$37.5bn after a 1.7 per cent increase in June.

Bruce Steinberg, chief economist at Merrill Lynch, said the electronic equipment figures had been particularly volatile in recent months. "There is no sign of a turnaround in Asia and domestic activity is slowing down," he said.

Most economists had been expecting a fall in the month, due to the effects of the long strike at General Motors. "The US manufacturing sector is still chugging along at a high level," Debbie Johnson, senior economist at Deutsche Bank Securities in New York, said, "but overall it is slowing."

Merrill Lynch said that looking ahead, it expected car orders to surge in August reflecting the return to work at GM. "Aside from that, however, we expect the industrial sector to remain sluggish, faced with de-

clining exports and a still excessive level of inventories." However, also pointing to an underlying slowdown were the figures for shipments of durable goods, which fell 0.2 per cent to \$186.2bn, their third decline in four months.

In the year so far shipments are now up 5.2 per cent over the same period a year ago.

Unfilled orders for durable goods rose for the first time since April, up 0.3 per cent to \$605.2bn, following a 0.7 per cent drop in June.

A more optimistic view was expressed by Ram Bhagavatula, chief financial economist at Citicorp Securities in New York.

He said that the revival of financing in much of Asia may be behind the demand for US durable goods, adding that "the second half of the year would actually look better in terms of orders, growth, production and exports".

## Treading the thin line between US domestic economic stability and a global financial disaster

William McDonough, NY Fed chief, talks to Gerard Baker on the importance of a 'soundly functioning American economy'



McDonough: "problems can be transmitted quickly from one part of the world to another"

To its critics the US Federal Reserve is steering a perilously thin line these days between domestic economic stability and global financial disaster.

Russia, Japan and other Asian countries are imploding in the most severe global downturn since the 1970s, but the US economy has been the one obvious ray of hope - continuing to grow at a blistering pace in the first half of the year.

Yet while the rest of the world desperately wants that pace of growth to continue, Alan Greenspan, the Fed chairman, threatened last month that the central bank might have to raise interest rates to ward off the risk of inflation, a move that would almost certainly exacerbate the global crisis.

How does the Fed square the circle? According to William McDonough, the president of the central bank's New York branch, and one of the most influential members of its policymaking open market committee, there is no real conflict.

As long as it is pursuing its objective of sustainable economic growth in the US, it is looking after the interests of the whole world too, he said in an interview. "A soundly functioning American economy is so important to the world that what is good monetary policy for us is good monetary policy for the world," he said.

But Mr McDonough acknowledged that the world was a dangerous place these days. He said the Asian crisis of the last year and the recent turmoil in Russia demonstrated that in modern global capital markets, problems could be transmitted very quickly from one part of the world to another.

And he accepted that the fragility of the world was an important factor in Fed decision-making. But ultimately Fed policymakers must decide on the basis of the US economy. Does that mean financial Armageddon is around the corner?

The key, most economists believe, will be whether the economy now slows by enough to keep the central bank's concerns about inflation under control, but not by so much that it will make matters worse for the rest of the world.

Mr McDonough seemed cautiously sanguine. "He warned that the Fed still needed to be alert to the inflationary dangers from the extraordinary tight labour market."

But, he added: "That risk has existed for the last couple of years... and inflation has stayed under remarkably good control, partially because of improvements in productivity and partially because of a series of positive supply shocks" such as lower energy prices.

And the immediate outlook was uncertain, he noted. Consumer spending, especially on services, was still robust; he was sceptical of the notion that the fall in stock prices in the last few months would curb consumption or investment. That fall was "not likely to have a significant negative effect" on the economy.

But there were a number of factors that would damp growth in the rest of the year, he said. The Asian crisis, of course, would continue to have a "very considerable" effect. But one other, overlooked, factor was also restraining demand. The rapidly emerging budget surplus - which official estimates now said could be as high as \$60bn, nearly 1 per cent of GDP, up from a small deficit last year - was, he noted, generating a drag on the economy.

Furthermore, and perhaps most important, Mr McDonough sounded more upbeat than ever on whether under-

lying US economic performance had improved radically in the last few years in a way that might have increased its long-term potential rate of growth.

Productivity improvements in the last few years driven by high-tech investment were clearly showing through, he believed. "I have been very reluctant to participate in the so-called 'new paradigm' school... but I think even a sceptic like me, after almost three years of improved productivity, has to begin to say that the likelihood that there really is something quite positive going on becomes greater with each passing quarter."

This, of course, is not the same as saying inflation is dead, and the New York Fed president warned that the goal of price stability remained critical.

One point he was anxious to make about the benefits of a stable economy was one not often heard from central bankers.

Economic stability - smooth, continuous growth, rather than boom-and-bust - was especially desirable from a social as well as an economic perspective, because it lifted living standards of the very poorest in society. It kept unemployment low, restrained inflation - thereby raising real wages - and limited dramatic dislocations associated with recessions, which always hit the poorest first and hardest.

"We do have a structural problem in that income distribution is rather strongly skewed in the direction of the well-educated... the benefit of sustained economic growth is to bring additional people into the labour force and give them a capability of a more full participation in the economic benefits of our society."

### NEWS DIGEST

#### MARTIN LUTHER KING JR

#### New inquiry into death of civil rights leader

The US Justice Department announced yesterday it would reopen its investigation into the death of Martin Luther King Jr, the civil rights leader assassinated in April 1968.

Janet Reno, attorney-general, said a limited review of the matter was justified by new evidence suggesting King's death may have been the result of a conspiracy. Previous federal investigations found that King was shot by James Earl Ray, a racist drifter, who was convicted of the murder and died in prison this year.

Ms Reno's decision follows a request by Coretta Scott King, King's widow, and his children, who have been pressing for the reopening of the case.

But the planned review will be more limited than the broad national commission the King family has been pushing for. The King family has long expressed doubts about the official version of King's murder. But in 1977-78, a separate investigation by a special committee of the House of Representatives also concluded that Ray had acted alone.

Although Ray pleaded guilty to King's assassination in 1969, he afterwards recanted his confession. Mark Suzman, Washington

#### EL SALVADOR ELECTION

#### Silva withdraws from contest

The contest for the presidency of El Salvador has taken an unexpected twist after one of the opposition's leading candidates withdrew from the race for his party's nomination.

Hector Silva had been expected to contest the nomination this weekend at a special convention of the Farabundo Martí Front for National Liberation (FMLN), the former left-wing guerrilla movement that is now El Salvador's largest opposition party. But Mr Silva, the mayor of the capital San Salvador, said on Tuesday he was pulling out of the race to reduce the risk of splits within the party.

When the FMLN convened this month to choose a candidate, Mr Silva and another candidate, Victoria de Avilés, received virtually the same number of votes, without either winning an outright majority. Mrs de Avilés, El Salvador's former attorney for the defence of human rights, seems set to win the nomination to contest the presidential election next March. James Wilson, Panama

#### VENEZUELA MARKETS

#### Devaluation fears ease

Government assurances of financial solvency eased fears of an immediate devaluation of Venezuela's currency yesterday, but they proved insufficient to prevent nervousness in the stock exchange and the foreign currency market.

The Caracas IBC index fell 3.5 per cent to 3,157 in early trading, having recovered on Monday and Tuesday part of the losses made last week amid devaluation fears.

Some financial institutions had to liquidate their positions in the stock exchange. The overnight interbank lending rate jumped to 150 per cent from Monday to Tuesday, after the central bank raised interest rates by more than 10 per cent on Monday. Maritza Izaguirre, finance minister, on Tuesday said Venezuela had sufficient resources to meet its debt obligations. Raymond Collé, Caracas

#### CANCER TREATMENT

#### Snake venom offers hope

US scientists have used copperhead snake venom to treat breast cancer in mice, according to a report presented yesterday at the national meeting of the American Chemical Society.

Mice given a distilled version of the venom experienced a 60-70 per cent reduction in the growth of breast tumours, and a 50 per cent reduction in metastasis - the spreading of the cells to other parts of the body. "We feel this is very interesting for the treatment of other cancers as well," said Dr Francis Markland, professor at the University of Southern California School of Medicine and author of the study.

A protein in copperhead venom prevents tumour cells from sticking to other cells and starves the tumour by preventing new blood vessels forming.

The drug's effectiveness in limiting metastasis is vital since most breast cancer patients die because the cancer spreads to other parts. Once metastasis occurs, only one in five women will survive. If the cancer can be contained, physicians have a better chance of eliminating it through traditional methods such as surgery and chemotherapy.

The snake venom protein will have to be synthetically reproduced before moving to human trials. Victoria Griffith, Boston

#### On the web today

● Brazil's political campaign casts a shadow over country's troubled markets: financial problems must wait until after October's election  
<http://www.ft.com/americas>

## Leaked Intel memo made public

By Louise Kelso  
in San Francisco

An Intel internal memo, subpoenaed as part of the Justice Department's antitrust investigation of Microsoft, was revealed yesterday in the New York Times.

In what appears to be a case of leaked evidence just weeks before the antitrust case goes to trial, it described alleged pressure by Microsoft to persuade the semiconductor manufacturer to drop certain software developments that conflicted with Microsoft's interests.

The newspaper quoted extensively from the Intel document, which describes a 1995 meeting between top executives of the two companies including Bill Gates, Microsoft chairman and chief executive, and Andrew Grove, then chief executive and now chairman of Intel.

The document is understood to have been obtained by the Justice Department under a civil investigative demand (CID) - the equivalent of a subpoena - several months ago.

Intel said it had received a CID earlier this year and had complied by turning over several documents. "We treat matters of this nature as private and non-public, so we will not comment further," the company said.

A Justice Department official said the apparent leak was "absolutely not from here. We don't know where it may have come from." The department confirmed that such documents, obtained during the course of antitrust investigations, should normally be kept private unless used in evidence during trial.

Microsoft noted that it had filed a request for summary judgment, asking the court to throw out all or part of the Justice Department's case. A hearing on this motion is scheduled to be held on September 8.

Microsoft said the meeting described in the Intel memo was a "commonplace" "Microsoft and Intel work closely to ensure that our products work well together for the benefit of customers," Microsoft said. "In fact, such discussions are necessary to ensure that PCs become easier to use."

Rick Rule, a partner at the Washington law firm Covington & Burling and a former senior Justice Department official who is now acting as an adviser to Microsoft, said it was "very troubling" to see the Intel document made public.

The law pertaining to CIDs prohibits the release of evidence and, moreover, evidence in the Microsoft antitrust case is covered by a protective court order, Mr Rule noted.

The Department of Justice had historically been "very good at obeying the rules. Its institutional integrity is on the line," said Mr Rule. However, he found it "puzzling" as to how the Intel document could have been made public.

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## CINEMA

## A bright riff on gangland movies

Nigel Andrews on a cinematic debut with flashes of brilliance

The British gangster movie takes a quantum leap sideways with *Lock, Stock and Two Smoking Barrels*. For the most breezily energetic UK movie in years director Guy Ritchie's first feature performs the remarkable feat of advancing cinema not one inch. This giddy scion of *The Long Good Friday*, *The Eggs and the Spies* and *Goodfellas* has the filmmaker's provenance stamped all over it. Ritchie came from pop music and commercial, those schools for style-without-substance and free-range plagiarism, and thither he may return unless he can bring colour and chiaroscuro to flashy brilliance.

For there is brilliance here. Introductory scenes sketch the dozen main characters as if with a light-pencil: from the quartet of hoodlum youngsters who have come under the gun to pay off a gambling debt, via the bullet-domed hatch-faced crime boss, to the effete foursome (led by a funny Steven Mackintosh) who supply cannabis to the non-gentry from their fortified inner-city barn. Footballer-turned-actor Vinnie Jones also wanders through, wearing the look of a man you wouldn't want to meet in a darkened penalty area.

The groups are cunningly brought together for a cinematic bloodbath, concluded when one AWOL character comes home expecting a quiet payday and finds instead *Hemlock*. Act Five: "No money. No weed," he mutters; "it's all been replaced by a pile of corpses."

The audience laughs, but by this stage in the movie - and more broadly in movie history -

it has little laughter to spare. For one thing, the "Ho ho" response to carnage has been extensively squeezed by *Pulp Fiction* and its postmodern peers. For another, Ritchie gives us his own funniest moments early on. Here the dialogue is all cockney slang ("You've got Libby's deficit in your skyrocket") or well-worn put-downs ("I didn't ask for a fucking rain forest" says someone given a pineapple-adorned drink in a "Samoan" bar). And as extra perks we get the burglar who won't put a stocking on head because he has done his hair; the gangsters who bestow only a

then smacks us for doing so. Ritchie, though, has caught the Tarantino wave, without quite being Tarantino. Much more of this post-*Pulp* affectlessness about mayhem and we shall all be found prone one morning with hilarity-induced lockjaw. A note self-planned to our chests will say, "We died laughing, even though we wanted to stop, for just a moment, and weep."

Strip a bestselling novel to its bones and you find a fairy tale or fable. Nicholas Evans's novel *The Horse Whisperer* sold so many copies that the eyes of statistics-gazers glazed over. Was it six million, 600 million, a billion? We just know that it used to be spread over every airport bookshop like wall-to-wall carpeting.

What is it actually, though, this tale of a horse wounded when hit by a truck, the girl rider traumatically crippled, and the English-born magazine-editing mother who whisks them off from Manhattan to Montana to breathe fresh air and the wisdom of an equine faith-healer? Out there under God's skies the only deadline is sunset and the only space-limitation the icy mountains that frame the imponderable valley.

It is, of course, the town mouse/country mouse fable gone mystical and given, now, the Robert Redford treatment. The film is long, slow, gorgeous and ever so slightly daff, like a two-page plot idea blown to epic size with hot air.

As a fable transformer Redford is not afraid to put the soppy into Aesopian. The film is held together by gaudy scenes of bonding: between man (and woman) and nature, between girl and animal, between mother and daughter, finally between Redford's eponymous horse whisperer - a kind of Marlborough

**LOCK, STOCK AND TWO SMOKING BARRELS**  
Guy Ritchie

**THE HORSE WHISPERER**  
Robert Redford

**THE SPANISH PRISONER**  
David Mamet

**THE PROPOSITION**  
Leslie Linka Glatter

moment's curiosity on the burning mouse fleeing the pub they're about to enter, or the good running gag involving a glass of juice and a fragile glass table.

All these are filmed with an elastic camera in a vivid array of shots. Watching high surface invention, though, can be an exercise in deep frustration. We keep wanting the film to be more than a joke, more than a bright riff on gangland precursors, but it never is. *GoodFellas*, TV-screened by cruel coincidence the same day as the press show, is not just funny but horrifying. Scoreless encourages us to laugh,



A man you wouldn't want to meet in a darkened penalty area: footballer-turned-actor Vinnie Jones in 'Lock, Stock and Two Smoking Barrels'

Cowboy gone transcendental - and Kristin Scott Thomas's redemption-seeking whorl, a Tina Brown fang soul-first from her New Yorker.

The film is horribly addictive, even so. The press show began 80 minutes late, but critics were soon as quiet as mice as they watched these other mice clash at the interface between metropolitan angst (bars) and pastoral certitude (hills). Robert Richardson's photography makes Montana look like Paradise, USA. And the actors hold their own with the giant scenery and quasi-giant themes. Scott Thomas has the presence and inclusiveness for the heroine. Redford was born to play this role and to direct himself in it. And the affecting, open-faced newcomer Scarlett Johansson plays the daughter better

than the part, or indeed the whole movie, deserves.

David Mamet's *The Spanish Prisoner* is a three-card trick in which we get dizzy panning our heads to follow the play. Who is behind the elaborate con game being played on Campbell Scott, the inventor of a secret "process" - Mamet keeps it vague but makes it stealable like all good McGuffins - that will enrich businessman Ben Gazzara's company? Is it the schemer Steve Martin? Is it the company's all-smiling girl Frida Rebecca Pidgeon (aka Mrs Mamet)? Is it the woman presenting herself as an FBI agent (Felicity Huffman)?

And so on. Like the playwright-filmmaker's first and best movie *House of Games*, this is a maze to catch mice in (rodent-themed week) and we suspect that we are

awed young company employees to spend a night with the misanthrope. It all goes horribly wrong, and that includes the movie. An irreverent hilarity gripped the press show audience as the plot stomped on through storms, deaths, miscarriages and coincidences, although there are moments when the film reaches that rare apogee: bad enough to be good.

Chop-socky fans will enjoy *Mr Nice Guy* (13, Sam Ho Hung) in which Hong Kong martial arts star Jackie Chan takes 88 minutes to clean up Australia. Fans of TV's *Frasier* will be less happy to see star Kelsey Grammer stumble through *The Real Howard Stern* (PG, Vadim Jean), a "comedy" about a writer, an unfunny cow and an icky little girl.

## THE PROMS THE ST. PETERSBURG PHILHARMONIC

## Kissin saves the day

It is good news for the St. Petersburg Philharmonic that foreign orchestras traditionally visit in the latter part of the BBC Proms. This year the Russians' foreign currency earnings will be worth rather more than they would have been a few weeks ago at the beginning of the season.

After a decade of political and financial crises there has been sufficient time for artistic standards in Russia to take a turn for the worse, if they were going to, but the signs are that at least the top musical institutions are holding up well. The St. Petersburg Philharmonic sounded technically as strong on this visit as in the past and it was no fault of the musicians that some of its performances were so haphazard.

The better of their two Proms was the second. This had the inestimable advantage of Yevgeny Kissin, Proms' champion after his gladiatorial solo recital last year, making a return appearance with Prokofiev's combative Second Piano Concerto. Kissin's tendency to hit the piano hard may be almost too much of a good thing in this music, but the clarity, especially at speed, is remarkable. Every chord drops into place with the power and precision of a guillotine blade. At the Salzburg Festival Yefim Bronfman showed how a patient pianist can build some towering climaxes in this concerto, but Kissin's reactions are fast and brilliant enough to take on all-comers.

Yury Temirkanov, the orchestra's

music director, was its conductor on Tuesday. As we know from his association with the Royal Philharmonic, Temirkanov has a fondness for indulgence and he is just as likely to wallow when standing in front of his Russian orchestra. Rimsky-Korsakov's suite from *The Golden Cockerel* and Musorgsky's *Pictures from an Exhibition* sounded as hedonistically romantic as expected, though the cultivated blend of the St. Petersburg strings and brass was a welcome pleasure.

## The performance made its wobbly way like a woozy man who has taken a sleeping pill

Whatever reservations one might have about Temirkanov, it was a relief to encounter him after Monday's Prom, when the same orchestra had to make sense of Gennady Rozhdestvensky at his most wayward. The best of this programme came at the beginning, with a short but compelling tribute to Scriabin. From then on it was downhill all the way, first to a soggy performance of Tchaikovsky's *Romeo and Juliet*, then to a lacklustre pairing of father and son, Sasha Rozhdestvensky as the soloist, in Prokofiev's Second Violin Concerto. It came as scant consolation that one could hear extra

detail in Stravinsky's *Petrushka* when the speeds were so pedantically slow.

Anyone at Rozhdestvensky's disastrous Prom with the BBC Philharmonic the previous Thursday will have known all too well what to expect. In Walton's First Symphony the conductor seemed to be reading the score (not without some signs of surprise) as he went along. The performance made its wobbly way like a woozy man who has taken a sleeping pill.

One shudders to think what must have been going on in the complexities of Simon Bainbridge's *Ad ora incerta* (1994), which Rozhdestvensky had chosen to conduct earlier. At nearly 30 minutes this song-cycle, a setting of four poems by Primo Levi, survivor of Auschwitz, is arguably the major new work at the BBC Proms this year. The scale of the piece, together with its strangely uplifting gaze towards a better world, recalls Mahler's *Das Lied von der Erde*, though that is not meant to imply any cribbing. Bainbridge also has Mahler's ability to invent striking orchestral ideas that sound as if they could only possibly be played by this or that particular instrument.

There is a whole symphony going on here to the point that the less interesting vocal part often seems redundant. It did not help that Susan Bickley, the mezzo soloist, paired with Kim Walker's solo bassoon as companion, had to struggle to make herself heard. The real achievement of *Ad ora incerta* is its ability to create a world in sound that allows the listener to step into another time and place. Bainbridge deservedly won the Gramme Award for the work last year.

Richard Fairman

## EDINBURGH ROCK

## Artists in a happy state of Flux

In a year with little or no great excitement arising from either the International Festival or the main areas of the Fringe, the most consistently intriguing series of events so far has been the rock-related strand known as Flux, taking place alternately in the Queen's Hall (Fringe venue 72) and the Jaffa Cakes club (venue 7).

Once again the strand opened with a flagship collaboration between a well-regarded rock band and a modern classical composer. Whereas, however, Michael Nyman's creative collaboration with The Divine Comedy last year consisted of a single song and an extra pair of hands at the keyboard, Steve Martland worked in much greater depth with Spiritualized, augmenting the band's numbers primarily with arrangements for an early-music vocal ensemble. This meshed most successfully with the hypnotic, narcotic-rush of Spiritualized's trademark sound.

Flux organisers David Sefton and Alex Poots have spread their fare skillfully; several evenings have been



A mature, consummate performance: Nick Cave

piano-accompanied songs at last year's Belfast Festival was perhaps the most electrifying musical event I had ever witnessed. Last Friday he seemed more relaxed and more confident at the keyboard. Helped by the plangent violin playing of Warren Ellis from support band The Dirty Three, Cave strolled affably but powerfully through a clutch of numbers from his most recent album, *The Boatman's Call*, a brace

of new or unrecorded songs and even a bizarrely reworked version of "Dead Joe" by his early-1980s band, The Birthday Party. Those who expected the stunted, ranting homunculus of old had their horizons agreeably broadened by Cave's mature, consummate performance.

Ian Shuttleworth

Flux box office 0131 667 7778; events continue until August 29.

## INTERNATIONAL

## Arts Guide

## AMSTERDAM

**EXHIBITION**  
Rijksmuseum  
Tel: 31-20-673 2121  
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 18th to the end of the 19th century, chosen from the museum's collection of cabinets. Includes four pieces by the cabinet-makers Abraham and David Roentgen; to Aug 30

## CHICAGO

**EXHIBITION**  
Art Institute Of Chicago  
Tel: 1-312-443 3600  
www.artic.edu  
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings; to Aug 30

## COPENHAGEN

**CONCERT**  
Tivoli Concert Hall  
Los Angeles Philharmonic

conducted by Esa-Pekka Salonen in works by Copland, Mahler and Sibelius. With mezzo-soprano Lorraine Hunt; Aug 28

**EXHIBITION**  
Louisiana Museum of Modern Art, Humlebaek  
Tel: 45-4919 0719  
www.louisiana.dk  
Louisiana at 40: The Collection Today. Anniversary exhibition of the permanent collection, designed to showcase 40 years of work. Highlights include works by Giacometti; to Aug 30

## EDINBURGH

**DANCE**  
Edinburgh International Festival  
Tel: 44-131-473 2000  
www.go-edinburgh.co.uk  
Nederlands Dans Theater II & III: Couple, The Old Man and Me, Solo and Grosse Fugue, plus the world premiere of a new work by van Manen, given by the senior company; Edinburgh Playhouse; Aug 28, 29, 30

**OPERA**  
Edinburgh International Festival  
Tel: 44-131-473 2000  
www.go-edinburgh.co.uk  
Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production. The conductor is Bernard Haitink and the cast includes Karita Mattila and Thomas Hampson; Edinburgh Festival Theatre; Aug 28

**THEATRE**  
Edinburgh International Festival  
Tel: 44-131-473 2000

Life is a Dream: by Calderon, in a translation by John Clifford. Royal Lyceum Theatre Company production directed and designed by Calixto Bieito; Royal Lyceum Theatre; Aug 27, 28, 29

## GLYNDEBOURNE

**OPERA**  
Glyndebourne Festival Opera  
Tel: 44-1273-815 000  
La Coccinelle: by Rossini. Revival directed by Yves Abel and conducted by Jérôme Savary, with the London Philharmonic Orchestra; Aug 28

## LISBON

**FESTIVAL**  
Ego '98, May 22-Sep 30  
Dive into the Future: this performing arts festival comes under the Expo umbrella and includes the premiere of a new work by Alan Platel; to Aug 31

## LONDON

**CONCERTS**  
BBC Proms, Royal Albert Hall  
Tel: 44-171-589 8212  
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Mozart and Bruckner. With flautist Emmanuel Pahud and harp soloist Marie-Pierre Langreny; Aug 27  
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Wolfgang Rihm, Schumann and Brahms. With piano soloist Maria Joao Pires; Aug 28

**OPERA**  
BBC Proms, Royal Albert Hall  
Tel: 44-171-589 8212  
Simon Boccanegra: by Verdi. Semi-staged. Glyndebourne Festival Opera production. Conducted by Mark Elder with the London Philharmonic Orchestra and soprano Elena Prokina; Aug 29

## LUCERNE

**CONCERTS**  
International Festival of Music  
Tel: 41-41-226 4400  
www.lucernefestival.ch  
● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korsakov, Prokofiev, Stravinsky and Ravel. With Violin soloist Dimitri Sitkovetsky; Aug 28  
● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Shostakovich and Tchaikovsky. With cello soloist Antonio Meneses; Aug 29

## NEW YORK

**EXHIBITION**  
Pierpont Morgan Library  
Tel: 212-685 0008  
a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, and author of Alice in Wonderland; to Aug 30

## PARIS

## EXHIBITION

**Jeu de Paume**  
Tel: 33-1-4703 1250  
In defiance of painting: "Je ne peins pas, je cloie mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Bunt, Fontana and Arman are some of the artists represented in this exhibition, which proposes to explore this dimension of painting; to Aug 30

## SALZBURG

**OPERA**  
Salzburg Festival  
Tel: 43-662-844501  
● La Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittolli; Kärntner Festspielhaus; Aug 27, 29  
● Saint François d'Assise: by Messiaen. Conducted by Kent Nagano in a staging by Peter Sellars. With the Hallé Orchestra and Schoenberg Choir, and a cast including José van Dam and Dawn Upshaw; Felsenreitschule; Aug 28, 30

## THEATRE

**Salzburg Festival**  
Tel: 43-662-844501  
● Geometry of Miracles: by Robert Lepage. Performance based on the life and work of the architect Frank Lloyd Wright. Co-production with Ex Machina, Quebec, and EXPO 1998 Lisbon; Perner Inset; Aug 28, 29

● Troilus and Cressida: by Shakespeare. New, co-production with Theater Basel, directed by Stefan Bachmann; Lehrbühnen; Aug 28, 29, 30

## SANTA FE

**OPERA**  
Santa Fe Opera  
Tel: 1-505-988 5900  
www.santafepopera.org  
Madama Butterfly: by Puccini. John Crosby conducts a production directed by John Copley; Aug 29

## SCHLESWIG-HOLSTEIN

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Schleswig-Holstein Music Festival  
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● NDR-Sinfonieorchester: conducted by Christoph Eschenbach in Mahler's Symphony No. 2. With the NDR-Chor and Chor des Bayerischen Rundfunks; Lübeck, Musik- und Kongresshalle; Aug 29, 30

## TOKYO

**CONCERT**  
Suntory Hall  
Tel: 81-3-3584 9999  
New Japan Philharmonic: Kazuhiko Komatsu conducts new

works by composers including Góndai; Aug 29

## VERONA

**OPERA**  
Arena di Verona  
Tel: 39-045-800 5151  
www.arena.it  
● Tosca: by Puccini. New production by Giuliano Mantoldo. Cast includes Ruggero Raimondi and the conductor is Angelo Camporé; Aug 28  
● Un Ballo in Maschera: by Verdi. New production by Giuliano Mantoldo. Conducted by Daniel Oren; Aug 29

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05.07: 06.07: 07.07: 08.20: 09.20: 10.20: 11.20: 11.32: 12.20: 13.20: 14.20.

At 08.20 Tanya Beckett of FTV reports live from LUFFE as the London market opens.



## COMMENT &amp; ANALYSIS

## The sum of its parts

Jonathan Ford and Alexander Nicoll look at the prospects for Airbus, now ahead of Boeing in aircraft sales but facing a difficult transition to a single company

It has been a historic week for Airbus, the European aircraft manufacturer. On Tuesday, it planted its flag in a citadel long the exclusive preserve of its rival, Boeing of the US, by finally selling aircraft to British Airways.

The orders, for up to 188 short-haul aircraft, will in effect limit Boeing's future relationship with the airline to that of a supplier of long-haul aircraft. Although this is far from a negligible position - reinforced by BA's simultaneous order for up to 32 Boeing 777s - the deal was hailed as a momentous win for Airbus. The last big airline in Europe that was not an Airbus customer had been converted.

The deal vaults Airbus into a position it has only once before occupied - that of having won more orders than its US rival. So far this year, Airbus has firm new orders for 377 aircraft against Boeing's 355. The last time it occupied this position was in 1984, during the last slump in aircraft purchasing. Airbus has also won important orders in Latin America and the US - Boeing's backyard.

Airbus has won market share partly because it makes good products. But its recent successes have also come about partly because Boeing has been buffeted by reverses. Plagued by the dollar's strength and production problems at its Seattle manufacturing base, Boeing last year recorded its first loss in 50 years.

Last month, the US manufacturer announced it expected to make earnings of about \$1bn this year, a margin of just 2 per cent on sales against a target of 7 per cent. Boeing's difficulty has been Airbus' opportunity.

Many of Boeing's problems stem, perversely, from the success of its upgraded 737 model, which it offered BA in competition to Airbus. In the past 2½ years, the US manufacturer has received orders for 1,019 of these aircraft, nearly two-thirds of all the orders it has taken. It has struggled to meet demand.



British Airways: soon the changes will be more than cosmetic

So while BA's decision was a significant blow, all but knocking Boeing out of the short-haul market in Europe, it was scarcely catastrophic for the Seattle company's order book. The 737 continues to sell well in the US, Latin America and Asia.

"I doubt anyone in Seattle lost all that much sleep over the loss of the BA short-haul order," said Dan Goodman, head of the aerospace practice at management consultants AT Kearney. "Boeing have too many orders to fulfil, not too few. This could be a blessing in disguise."

The BA deal underlines changes to the aircraft industry during the boom under way since 1995. While Boeing has dominated the long-haul market, Airbus has emerged as a powerful competitor in the short-haul market.

Boeing says its rival has done this partly through squeezing prices to a point where it, as a listed company, cannot compete. "Producing at a loss is not an option for us or our shareholders," Boeing said in response to the BA deal.

Analysts believe Airbus has been prepared to undercut Boeing's prices to boost market share. This has been done not just through price-cutting, but by offering extensive performance guarantees and warranties.

Boeing also argues that Airbus has an unfair advantage because its unusual

corporate structure means the European manufacturer is not exposed to the same public scrutiny as a listed company. As a *Groupeement d'Intérêt Economique*, a French legal construct, Airbus publishes no accounts and makes no profits and losses in its own right. Instead, these accrue to its owners: Aerospatiale of France and Daimler-Benz Aerospace (Dasa) of Germany, which own 37.9 per cent, British Aerospace, which has 20 per cent, and Casa of Spain, which has 4.2 per cent.

Boeing has also mounted a long campaign against the government subsidies Airbus has received to develop new aircraft.

Airbus admits early models enjoyed substantial launch assistance, but claims this has tapered off in recent years. Its most recent model, the 185-seat A321, was developed without any launch aid, it claims.

Airbus is, however, on the verge of change. Its owners are in the midst of protracted negotiations on converting it into a single corporate entity which would make its results more transparent and give Airbus managers some idea of the consortium's manufacturing costs.

The four partners manufacture sections of the Airbus aircraft, each quoting a price for the work. But Airbus central management

does not know how much it costs each company to make its components. And without a clear idea of costs, it has no way of reducing them.

Noel Forgeard, Airbus's new managing director, believes a single company would find economies of scale by being able to buy centrally goods and services currently purchased by the four partners. In theory, it should also be able to improve customer service because it would handle the manufacture of its own aircraft.

But change is proving difficult. Questions such as the domicile and tax status of the new company have yet to be resolved, and the most difficult issue - how to value assets the partners will put into the new company - has yet to be tackled.

Further complicating the issue have been moves to merge the three largest partners into a bigger European aerospace and defence company of which Airbus would be part. Politicians in Britain, Germany and France have put companies under strong pressure to consolidate in order to do battle with Boeing and Lockheed Martin, the US defence and aerospace giants, which are both much larger than the individual European companies as a result of a series of mergers. A three-way European merger, however, may be some way off, since Bae and Dasa would be unwilling to merge with Aerospatiale as long as the French state retains its large holding.

Through the negotiations on restructuring Airbus are difficult, that they are taking place is a measure of its shareholders' confidence. While a single company could prove a more nimble rival to Boeing, greater transparency could force Airbus to be wary of chasing market share.

"The restructuring of Airbus would be good for everybody," said Mr Goodman. "It is big enough to stand on its feet now. Creating a single company would give everyone a better idea of the economics of the industry."

## LETTERS TO THE EDITOR

## Hong Kong market action not due to pressure from property interests

From Mr Ronald Arculi.  
Sir, I refer to the article "Hong Kong Market" in the Lex column on August 20.

Of the umpteen articles written by both financial and non-financial press since the Hong Kong Monetary Authority's action in the Hong Kong stock market your correspondent's article is well-balanced and analyses the situation fairly except in one aspect.

The Hong Kong Monetary Authority's action was not due to pressure from property developers. I can speak with a little authority as I represent the real estate and construction industries in the Legislative Council.

Secondly, the HKMA's action was welcomed by a great majority of the com-

munity other than the media and the financial sector in Hong Kong as we felt utterly helpless in the face of continuous onslaught by speculators who initially reaped profits on attacking the US/HK dollar peg and when such action proved unsuccessful they then sold short on our stock market Hang Seng index and gained even more profits. This was brought about because by attacking the dollar peg interest rates would go up, which would bring about a decline of our stock market. If this wasn't enough, borrowing stocks of several of the key index shares and short selling these would virtually ensure success.

Stock and currency markets generally operate effi-

ciently but there are occasions when fundamentals play little part. If this happens, I believe it behoves those having responsibility not to take some corrective measures. No one criticised the HKMA when it took action in the currency market; why did they do so when the HKMA took action in the stock market?

There is no doubt we like our Asian neighbours, are going through a lot of adjustment but I am confident that Hong Kong's resilience, discipline and creativity will prevail.

Ronald Arculi,  
Room 2718, Jardine House,  
One Connaught Place  
Central,  
Hong Kong

## No case for grand juries in criminal proceedings

From Mr Keith Wedmore.  
Sir, Nancy Dunne is wonderfully non-judgmental about American grand juries ("Stars and Bars", August 18). Their job is to decide if a person should be tried in indictment. They are a preposterous institution. England disposed of them in 1934, and replaced them by the magistrates' court committal hearing.

In England, the process is not secret or shielded from the defence; lawyers for the defence may ask questions, submit no case to answer, and even call evidence if they choose, although this is rare. (They may also ask for there to be no publicity.)

For some 30 years there has been no need for any witnesses to be called live if the defence do not wish to see or question them. All this results in the dismissal of this case; and in cheap and speedy preliminary hearings. Not a bad idea.

America has cumbersome grand jury hearings held in secret and so one-sided that as your correspondent said, one could indict a ham sandwich, and out of which sorts of leaks and misfortunes may flow - need I give instances?

The only thing good about them is the privacy and anonymity of the jury, which should be salvaged and transferred to American trial juries, where it is much needed. The grand jury in criminal matters could then be allowed to sink without trace.

"Rubber stamps," she says. So who needs them?

Keith Wedmore,  
Cornelia Avenue,  
Mill Valley,  
California 94941-1840,  
USA

## Doctors' role in the drugs-in-sport scandal

From Dr Delon Human.

Sir, Your leader ("Kicking Drugs", August 21) recognises that the sporting world's governing bodies alone cannot stamp out the growing practice of doping in sport.

You go on to rehearse what should be done, but you fail to mention the role that doctors can play in tackling this growing abuse.

The involvement of doctors around the world in

assisting sportsmen and women to cheat by taking performance-enhancing drugs is a scandal that must be dealt with. Doctors who help their patients to conceal the use of drugs by means of pharmacological manipulation are acting totally unethically.

Doctors must censure colleagues whom they know to be involved in this activity.

At our annual general assembly in Ottawa in Octo-

ber, the World Medical Association will be considering fresh guidance for the world's doctors and national medical associations on how best to expose the medical abuses now going on.

Delon Human,  
secretary-general,  
The World Medical Association,  
28 avenue des Alpes,  
10210 Ferney-Voltaire,  
France

## Dangers in drawing distinctions over bombings

From Mr Bill Singleton.

Sir, In John Lloyd's article "Ghosts of Republicanism" (August 18), he quoted Dr Bruce Hoffman of St Andrew's University. Dr Hoffman said that the "old" terrorism of the IRA "recognised some restraints and had a precise goal".

It's important to keep a perspective on this. During the early 1970s, I was living in England, and remember

hearing of the IRA bombing restaurants. Indeed, a second cousin missed by sheer luck and about 20 minutes being caught in such an attack.

It is difficult to discern the element of restraint present in such acts of violence.

Most modern warfare, whether it is terrorism or use of nuclear weapons, is without restraint, and we should not allow ourselves to become entranced by fine

academic distinctions. The bombs in Omagh and in Nairobi would probably be classed as contrary to international law, the same way that use or threat of use of a nuclear weapon have been ruled to be contrary to international law - a war crime.

Bill Singleton,  
5 Ede Street,  
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Canada

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## PERSONAL VIEW DANIEL YERGIN

## Enter the three bears

The bears are lurking in the woods. It will be no picnic if they catch up with Goldilocks

It's two miles up Old County Road in Truro, Massachusetts, to the so-called town centre, a couple of shops that serve the houses hidden away in the woods and perched above the beaches.

I do this walk every day partly to pick up the newspapers, partly because, often enough, I run into Von Mensch, who is as good as anybody I've ever met at thinking about the stock market.

For years now we've sat, shooting the breeze, on the wooden benches in front of Jams, the general store, just across from where the bus puts down people from Boston.

Von Mensch is very market-focused. In this scandal-drenched era, he is not interested in scandal, save as it affects politics, and he's mainly interested in politics insofar as it affects the markets.

This particular day is the hottest since 1997, and we are toasting back our habitual bottles of mineral water. Von Mensch holds up his bottle.

"This sells for a multiple several times that of a like amount of oil," he says. "Its price is going up. Oil's going down. This is the new economy, the service economy. Oil is the old economy, the industrial economy."

I knew he was getting to the point.

"It's as though two different worlds exist at the same time," he continues. "There are certainly two different great investment theses out there. One is the Goldilocks economy. I read that phrase at least five times a week. Everything works together: the restructuring, the deficit conquered, flexible labour markets, growing corporate profits, the high-tech service economy, the Internet, blah, blah."

"That's how you get to Goldilocks: low inflation, good growth and low unemployment all at the same time. Not too hot, not too cold, just right. And it's not just Silicon Valley."

He gestured towards Jams. "I've never seen that store so understaffed. Dinner takes three hours in any restau-



The Goldilocks economy: are investors right to rest peacefully?

Mary Evans Picture Library

that underpins the new paradigm multiples. And then all those investors who thought that you were supposed to buy on dips will decide that they had better protect what they have made, or at least the 90 per cent that remains of what they had made. And I don't want to be in their way as they head for the door."

By this time we are headed back along Old County Road. "So," I ask, "what are you doing with your money?"

"I have two portfolios. Half is in my Goldilocks portfolio: Internet companies; Dell computer; AOL; media plays, high multiples. The other half is in my Three Bears portfolio."

I ask him what that was. "Simple." He pauses.

"Sounds schizophrenic."

"I know," he says. "I think I'm going to reallocate. I'm worried about leadership. You've got to be worried about a Yeltsin who's only good for 2½ hours a day. The next person he ought to fire is himself. But that's only an extreme case. People talk about General Lebed in Russia. But I see other Lebeds beginning to appear. There's one in Venezuela. He's

named Commandante Chavez, and he's leading in the polls. I also worry about too many alarm bells going off at once, about the last superpower getting overloaded."

"There's also this strange business that every piece of bad news in the rest of the world gets interpreted as good news for Wall Street. You know: 'Flight to quality. Safe harbour' - all that."

"And then there are those boom-time indicators. Graduating MBAs starting at \$120,000 a year. In the latest survey of the blue-chip economists, not one said that there would be a recession. People say that they don't ring a bell at the top of the market, but all that sounds like a peal of bells to me."

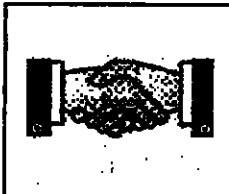
Von Mensch looks off down the hill, towards Cape Cod. The sun was glistering on the water, from a cloudless sky. Then he looks to the left, into the trees. "I could be very wrong," he says. "But, personally, I think the three bears are in those woods. And I don't see how Goldilocks can outrun them."

Dan Yergin is president of Cambridge Energy Research Associates



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## FINANCIAL TIMES

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Thursday August 27 1998

## Continuing correction

In the face of Asia's financial crisis, world markets have proved surprisingly resilient. This summer has seen a correction across Europe and the US, but equities remain at historically high valuations. With Russia now on the edge of collapse, markets are increasingly jittery.

Shares in Frankfurt, London and across Europe fell yesterday amid more bad news from Russia. New York opened gloomily. It has been a terrible week for hedge funds exposed in Russia. Gains from a relatively good 1997 have been wiped out. Funds that are highly leveraged are likely to collapse. Separately, Credit Suisse First Boston, the investment bank, yesterday warned that global turmoil, in particular the Russian crisis, had cut expected profits for the year by \$600m.

Russia has now unveiled plans to restructure \$40bn of short-term debt into longer-term liabilities. The terms are such that this amounts to a default, and Russia's ability to borrow on world markets has been undermined for years to come. The rouble fell 40 per cent against the DM. This implies a rate of almost 14 rubles to the dollar, completely at odds with official policy. Russian shares are down 87 per cent from the peak in June.

There is little cause for hope that things will soon improve in the international economy. Asia's crisis continues, Japan's plight worsens and the yen continues to fall, reviving fears about devaluation in China. Commodity prices remain depressed. This, together with a general cooling of investors' attitudes towards emerging markets and a general rise in risk premiums, threatens contagion in Latin America. This would quickly feed through into the US economy.

Amid a tide of earnings downgrades over the summer, there has already been a mini-correction. The Dow Jones Industrial Average is down 9 per cent this week from its July peak, and smaller companies have performed far worse than this. London shares are down 10 per cent since July, and the German Dax has fallen 15 per cent. European markets as a whole are down 13 per cent since July's peak. Asian markets are down 30 per cent since the start of the year, with the Nikkei down 11 per cent since July.

Even so, western markets remain at high ratings supported by low interest rates. The question now is: could a correction turn into a bear market? The threat is not inflation, which remains low almost everywhere - but rather a world recession. It is the US that the world relies on to act as the consumer of last resort. For this role to continue, extraordinarily high stock market values must be maintained while corporate earnings fall in the one-third of the US economy exposed to international competition. It looks a very tall order.

## Pakistan in peril

The US missile attacks on Afghanistan may have made sense as part of America's war against international terrorism, but they have made the problems of neighbouring Pakistan immeasurably harder as it struggles to avoid default on its \$25bn foreign debt.

Until the attacks, there was some hope that Nawaz Sharif, the prime minister, could reach a rescue agreement with the International Monetary Fund in parallel with a commitment to sign the Comprehensive Test Ban Treaty. This prospect has receded as a wave of anti-US emotion has gripped the country, giving its politics a decidedly more fundamentalist tone. Mr Sharif is now ill-placed to sign the CTBT without being accused of selling out to the US. Nor would it be easy for him to accept IMF conditionalities which could also be seen at home as a punishment dictated by Washington.

Yet the alternative is simply a drift into economic and political chaos. It is doubly alarming because of the heightened risk of confrontation with India - particularly dangerous now both countries are declared nuclear powers - and because of the chance that Pakistan could be sucked into the unstable politics of the Middle East.

Mr Sharif's fall-back solution for the economy is an aid package expected from the Islamic

Development Bank and other Middle Eastern donors. But, though this could amount to as much as \$1.5bn, it is no long-term solution when the external funding shortfall this year is likely to be \$2bn or more.

Ultimately Pakistan will have to turn to its western creditors for help in constructing a rescue that involves both new money and a full-scale rescheduling. Mr Sharif would be deluding himself and his country if he pretends otherwise. Nor, given the failure of his government to deliver vital reforms in banking and tax collection, is there much alternative to tough conditionalities.

This will be a difficult pill to swallow, but it would be a mistake for the outside world to sweeten it by softening the unspoken nuclear conditions. Having gone down the road of sanctions, the west cannot afford to give in and appear a pushover. That would be to invite other developing countries to follow Pakistan's nuclear example.

The sad truth is that Pakistan would be much better off today if it had maintained the high moral ground - not matched India's nuclear tests - and embraced the aid on offer from the west. It is not too late to adopt this course, but it will be a much stiffer test of Mr Sharif's statesmanship. The region will be a more dangerous place while he decides whether to rise to it.

## Canada's choice

The Canadian authorities may not be facing the kind of crisis that many emerging markets are now dealing with. But the question of what to do about the falling Canadian dollar is causing fierce debate. The Bank of Canada should not be panicked into overreacting.

So far the Bank of Canada's reaction to the falling dollar has been restricted to interventions in the currency market. It has been reluctant to raise interest rates because of the weakness of the economy. Although output grew strongly in the first quarter of this year, figures for April and May indicate that growth in the second quarter is likely to be substantially slower.

They are right to be cautious. A very significant rate rise would be needed to have any effect on the foreign exchange markets; this would crush economic growth. Such a move could even fall in its objective of supporting the Canadian dollar further if it prompted fears of recession.

One policy option being pushed by some economists is to offset the economic impact of a rate rise by tax cuts. However, this could cause the budget surplus to turn back to a deficit, particularly as the weakness of the economy will dampen tax revenues. With Canada's large stock of public debt and history of weak fiscal management, this would be a very damaging development.

It is clear that the cost of defending the currency could be very high. The alternative is to let the dollar continue its downward slide. And in fact, this looks like the most sensible option.

Canada is not just another economy caught in the emerging-market crossfire. There are fundamental reasons for a weak Canadian dollar. As a major commodity exporter, Canada has been badly hit by the slump in commodity prices over the past year. The weakness of the economy, particularly relative to the US, is a further reason to expect an exchange rate fall.

Certainly, negative market sentiment is also playing a major part, and the dollar may now be undervalued. But this is unavoidable given the current turbulence of world markets.

And a weak dollar is not particularly costly for Canada. With inflation of only 1 per cent, the inflationary impact of the lower exchange rate can be accommodated. And unlike the emerging economies, there is no reason to expect the currency slide to turn to free fall or the banking sector to collapse.

The Bank of Canada is right to intervene to cushion the dollar's fall. But we have seen too many times over recent months just how costly it can be to attempt to defend an exchange rate against the will of the markets. This is one battle not worth fighting.

## View from Fortress Europe

Lionel Barber argues that the EU is being complacent if it thinks it can remain immune from the economic and political chaos raging from Moscow to Tokyo

**P**icture a medieval castle during the Crusades. Famine, pestilence and war ravage the countryside. But behind the stone walls, the inhabitants insist they are safe.

Welcome to Fortress Europe, summer 1998. Impregnable against external threats whether they stem from financial collapse in Asia, a global recession, or the disintegration of Russia into a nuclear-tipped gangster state.

The mood of complacency in the European Union is driven largely by the recovery in France and Germany and the imminent launch of economic and monetary union. But two more recent developments challenge the notion that the EU can remain immune from the shocks reverberating around emerging markets.

The first phenomenon - continuously captured by yesterday's chain-reaction in the Asian, US, European, and Latin American stock markets - is that the shocks are occurring simultaneously and in many instances are mutually reinforcing. Contagion is no longer a risk; it is a fact of life.

The erosion of market confidence coincides with a second phenomenon: the emergence of a political vacuum in Moscow, Tokyo, Washington and Bonn. Bill Clinton has prostrated his admission of sexual rivalry in the White House. Boris Yeltsin stands exposed as a puppet president propped up by financial oligarchs. Keizo Obuchi, Japan's prime minister, has been written off after a few weeks in office. And Helmut Kohl, Europe's elder statesman, is fighting for his political life ahead of Germany's September general election.

Expect the paralysis to endure. Mr Clinton can hope for few favours from Kenneth Starr, an independent counsel shortly to report to Congress on his financial dealings and private life; nor from the Republicans who know that the threat of impeachment is a more effective weapon in the run-up to the 2000 US presidential election than the act. As for Messrs Kohl, Obuchi and Yeltsin, protracted succession struggles are under way irrespective of election timetables. It is the political equivalent of the triple witching hour.

The cumulative effect is an absence of leadership and an ad hoc approach to the international community's efforts to contain the Asian crisis. Stanley Fischer, first deputy managing director of the International Monetary Fund, voiced frustration this week when he blamed Germany for failing to seize the initiative in a fresh rescue package for Russia. His suspicion was that Chancellor Kohl had no stomach for putting up more money before the election.

"The chance was missed to help Russia out at a time when the situation was by no means hopeless," Mr Fischer told the *Frankfurter Allgemeine Zeitung*. "Without the Germans, of course no other country was prepared to support Russia financially."

Mr Fischer's remarks can be seen as a pre-emptive strike against critics who have raised doubts about the effectiveness of the IMF's multi-billion rescue packages in South Korea, Indonesia and Russia. But his comments raise broader questions about the role of the EU as a contributor to regional and international stability.



The Union and its 15 member states have contributed generously through IMF packages and technical aid to strengthen domestic banking supervision in Asia. But at the highest political level, EU leaders have shown themselves driven by domestic political considerations.

All the difficult negotiations over eastern enlargement were put off until after the German general election. In the meantime, the best civil servants' minds were to be prepared (yet another) summit in mid-October to discuss adjustments in the balance of power between Brussels and the 15 member states.

Today, these priorities look skewed. They rest on three questionable assumptions. The first is that Europe can afford to expand eastwards at a leisurely pace. The October summit looks like an exercise in navel-gazing, while the tacit belief that the former Soviet bloc countries will have to wait until 2005 to join the Union looks complacent, especially if Russia slides toward nationalism.

As one lone dissident said this week: "The Commission should be asking itself whether the Union should enlarge to Russia, what are the consequences of not doing so, and how to strengthen the overall partnership with Moscow and Ukraine."

The second assumption under scrutiny is that European banks can be shielded from financial

collapse in Russia and elsewhere. The authorities have brushed aside concerns about the \$30bn exposure of German banks to Russia on the grounds that most of the funds are backed by government guarantees or collateral.

But according to December 1997 figures produced by the Bank of International Settlements, European banks have more than 55 per cent of all developing country loans. French and German banks have \$50bn of

loans outstanding in Latin America, almost as much as US banks. As for the massive hit taken by foreign investors on Russia government debt, says one London investment manager, "the debris has still to hit the ground".

The third assumption that no longer looks so comfortable is that the EU could count on a trouble-free launch of the euro on January 1, 1999. Just a few months ago, Euro looked to be proceeding in the best of all possible worlds. The selection of 11

countries, including Italy, as founder members had gone ahead without the much-predicted recrimination. Growth in France and Germany was accelerating. All the talk in Brussels was of the coming euro-boom.

The idea that a global recession could disrupt the Euro timetable is still regarded as a bad joke in Brussels. But officials grudgingly concede that growth in the euro zone next year may not be as high as the 3.5 per cent-plus originally predicted. That means the prospects for substantially reducing Europe's chronic unemployment will recede, increasing pressure on left-wing governments in France, Italy and perhaps later in Germany, to put off the structural reforms needed to make Euro work.

Much turns on what happens in the German economy. Despite the growing confidence of the corporate sector, many experts still believe its recovery is relatively fragile. Germany has traditionally relied on export-driven growth. It has never experienced US-style growth which derives from a dynamic internal market with high labour flexibility. That suggests the outlook for the euro zone may also be weaker than expected.

The counter-argument to this pessimism is that the launch of the euro will act as a catalyst to the single European market and that Germany will be the big

winner. Europe will become more self-contained, along the lines of the US economy. In short, it will become a genuine regional power which - to echo a favourite phrase in Paris - will be "emancipated" from the dollar and Wall Street.

The trend toward autarky is helped by trade patterns. Inside the future Euro bloc, the export share of gross domestic product will be around 10 per cent, close to that of the US but much lower than current levels in all of the EU economies. (Trade between two EU members - now counted as foreign trade - will become "domestic" in the euro zone.)

Yet there are risks in this rosy euro-scenario. The EU - or rather the Euro bloc - will take the argument in favour of the euro as pole of stability too literally. Policymakers will adopt a fortress mentality, obsessed with making monetary union work and less concerned with Europe's responsibilities to the outside world. These obligations must go beyond the EU's view of itself as a bulwark against chaos. It requires a recognition that the euro is not merely Europe's political monument, but a tool that should force Europe to organise itself to deal with instability beyond its borders.

That means resolving the ambiguities in the Maastricht treaty about the respective roles of the politicians and unelected central bankers, starting with exchange rate policy for the euro vis-à-vis the yen and dollar. At present, who speaks for the euro remains as unclear as who speaks for Europe on foreign policy.

Next, the EU and the newly formed European Central Bank must address the discrepancy between the highly developed macro-economic surveillance of member states' performance and the vague provisions for micro-prudential supervision where the ECB role is only advisory. One veteran of the Maastricht treaty negotiations warns that a Russian-driven banking crisis in the euro zone would leave the Union exposed with no competent authority accountable.

Finally, the central bankers in Frankfurt may well have to swallow their anti-inflation orthodoxy in favour of a monetary policy that recognises deflation as a new enemy. The early view is that it is too early to assess the risks of imported deflation; but calls for Europe to act as a locomotive to world growth could increase if the Asian virus spreads to Latin America and the US recovery finally falters.

Naturally, Europe's central bankers and political leaders, nearly all of whom have sold the euro as an inflation-killer, would suddenly be put on the spot. It would also test the maxim of Hans Tietmeyer, the hard man at the Bundesbank, that central banks should take no external action that could serve as a pretext for pursuing a misguided line of action.

In the old world, such concepts of national boundaries and national sovereignty counted as an article of faith. But the ripple effect of the Asia-Russia crisis forces Europe to think anew about its international role and responsibilities.

The alternative is a retreat into one of those Middle Age fortresses: a splendid but ultimately flawed defence against the forces of modernity.

Lionel Barber is the com

## The world is now facing the political equivalent of the triple witching hour

## OBSERVER

## Getting bigger by design

There's a bit of a tussle going on between the two big names on the publisher's computer.

Quark, the Denver-based outfit which keeps graphic artists everywhere busy, is trying to buy its much bigger rival Adobe. And the Californian software concern doesn't want to go to the altar.

Fred Ebrahimi, the Iranian who runs Quark, insists that a bigger, brighter company is just what the customers want: he's only doing it for them. Long-time chums John Warnock and Charles Geschke just want to go on running Adobe.

Not that all has been sweetness and light over in San Jose: this month, there was a bit of a clear-out among Adobe's higher echelons and 300 job losses - though Warnock, a Utah-born electrical engineer, describes Adobe as "a fairly gentle company in a lot of ways".

Ebrahimi went to Colorado to get into real estate before being headhunted by Quark's founder Tim Gill, and the two now control the privately-held company. If Quark wins - and it was sounding pretty determined yesterday - Adobe's bosses aren't likely to hang around in Quark's more hard-driving culture.

Geschke could have more time to indulge his love of "the latest

and greatest gadgets", and his summer house on Nantucket Island - complete with fishing boat. Warnock's passions are less high-tech: when he's not painting watercolours he's collecting rare books.

## Swatch this space

What is to happen to Tag Heuer, the Swiss luxury watch company? As it nears the second anniversary of its stock market debut in Switzerland and New York, it ought to be renamed "Dog" Heuer on account of its dismal share price performance.

Tag Heuer watches are the second most counterfeited in Asia after Rolex, but investors haven't shown the same appetite for collecting its shares, which are trading at around half the flotation price.

But this poor share performance doesn't do justice to the Tag Heuer management team, which is reckoned to rank among the best in the secretive Swiss watch industry.

If Nicolas Hayek, the 70-year-old boss of Swatch, Switzerland's number one watch company, wanted to solve the succession question overhanging his fiefdom, he could do a lot worse than buy Tag Heuer - which he could do out of Swatch's ready cash - and let its management run Swatch.

That would leave the problem of what to do with Nick Hayek junior, Hayek senior has hinted

strongly that he plans to hand the job down - or, as he puts it, to the best person "even if he is unlucky enough to be my son".

## Hamster fisted

Jürgen Rüttgers, Germany's science and technology minister, was a proud man yesterday, as he lauded the government's achievements in supporting the biotech industry.

The authorities in Göttingen night disagree. They plan to build a biotechnology centre has run into serious trouble after environmentalists found 100 field harvesters in the way.

Now even the public prosecutor's office is taking an interest in the city's plans. "Nowhere in Europe," Rüttgers claimed yesterday, "are there better conditions for biotech companies." As long as the rodents stay out of the way.

## Bored of the flies

When you're in the middle of nowhere and your workforce walks off the job, they can take a bit of getting back. Yesterday, more than 1,800 miners abandoned Western Australia's giant Murrumbidgee nickel mine and set out for the fishpots of Kalgoorlie, just 250km away.

The strike wasn't over pay - their food was crawling with maggots and, in a place where even the sand lizards get lonely, you can't just pop out to the

sandwich bar if the works canteen isn't up to snuff.

The management of the mine, a joint venture between Glencore International, the commodities trader, and Anascondito Nickel, blamed "blowfly season" for the maggot infestation - something caterers in the area ought to know about.

Those miners who couldn't get a lift or a plane ticket were eagerly awaiting a shipment of "emergency frozen barbecue packs", while managers set out to track down the others in Kalgoorlie's top burger bars. The company says it's going to suggest that packed lunches be kept in the fridge in future.

## Press pass

After Bill Clinton's attack on Sudan, the country has been extending an uncharacteristic welcome to the world's press. Officials give five satellite television interviews and journalists get visas without the usual interminable waits.

Most savvy of all in this new era of openness is Mustapha Osman, Sudan's foreign minister, who yesterday faced the world's press, eager to hear about Sudan's response to the attack.

Without a hint of a smile, Osman expressed delight that so many reporters from around the globe had come to witness the signing of a new economic co-operation agreement between Sudan and Burkina Faso.

## Financial Times

## 100 years ago

Anglo-Russian Dispute  
Shanghai, 26th August. Violent scenes are reported to have occurred between Sir Claude MacDonald, the British representative, and M. Pavloff, owing to the latter's commanding the Tung-I-Yamen to break the agreement with the Hong Kong Bank under pain of the Czar's strong displeasure. The Chinese are inclined to give obedience to M. Pavloff, as they see that the British confine themselves to verbal protests. At Port Arthur, the Russian troops are being constantly exercised in field manoeuvres under actual war conditions.

## 50 years ago

Food Crisis in France  
Paris, August 26. French Ministers responsible for domestic economy to-day discussed as a matter of urgency the prices of milk and bread. This is the latest move in a week-long effort to stem the tide of labour unrest by pegging food and commodity prices. After consulting the Butchers' Federation, Food Minister M. Coude de Foresto has decided to introduce a new price scale for meat by which the more expensive cuts would be cheaper.



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## THE LEX COLUMN

### Russian for the exits

Few tears need be shed for those like George Soros and CSFB who have lost a packet in Russia. These are grown-up investors who bet wrongly that Russia was too big to fail.

If their bet had come right, they would be in the money. The sorry episode could even carry a salutary lesson: in future, investors are less likely to gamble on the International Monetary Fund's bailings them out.

This is not to suggest Russia's default is acceptable. The terms of the forced rescheduling of rouble debt - under which investors stand to lose 80 per cent-plus of their value - verges on expropriation. Nobody will lend Russia a cent unless there is a complete clean sweep of the Kremlin leadership.

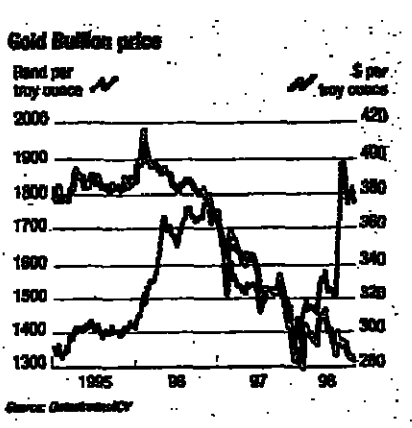
Meanwhile, the Russian crisis is spilling out in new directions. As panic among the ordinary population spreads, the rouble is on the verge of total collapse. In one sense, the rush for the exits is rational. Who would trust a government that has just defaulted on its debts - and is struggling with simultaneous banking and political crises - not to resort to printing money? On the other hand, the collapse in the rouble could make fears of hyperinflation self-fulfilling.

In the circumstances, the only alternative is to slam on exchange controls. Yesterday's closure of the currency market may be the precursor to abandoning the rouble's convertibility.

That would allow the government to fix whatever rate it wants for the currency and prevent it from collapsing. The snag is that a parallel black market would spring up and Russia would be still further isolated from the global economy.

As if this were not enough, a foreign debt crisis is looming. In the past six weeks, the central bank has lost \$6bn trying to defend the rouble, with the result that foreign exchange reserves are now probably below \$15bn.

Though Russia's \$140bn-plus hard currency debt does not have the same short-term profile as its rouble debt did, servicing it will cost nearly \$20bn between now and the end of 1999. With the current account in deficit (to the tune of perhaps \$5bn this year) and the chances of squeezing more money out of the IMF slim, the government will probably throw in the towel.



receipts. An out-and-out attack on the real might be hard given that it is not fully convertible. Moreover, nearly \$70bn in reserves provides a cushion against limited capital flight. However, the need to roll over so much short-term debt means the next few weeks could be nail-biting. With plans for reform, Brazil ought to survive. But it will be touch and go.

#### Gold

To raise a voice for gold is to invite derision. But with currency and asset prices so volatile, perhaps gold's status as a store of value may help it enjoy a renaissance. The omens, though, are not propitious. Asia is seen as a minus for gold - people are poorer and therefore less likely to buy it. Likewise, turmoil in Russia only invites the response that it will encourage desperate central bank selling. The upshot is that gold, in dollar terms, continues to languish close to an 18-year low.

What could spark a change? Perhaps speculators will close short positions as more favourable trading opportunities present themselves. Maybe the advent of the European central bank will mean reduced central bank gold selling. The advent of the millennium could spark a surge in demand.

One might take these arguments as nothing more than the desperate twitches of scared bulls. But even if the bullion price remains flat, there is a strong investment case for looking at gold shares. This requires dumping the baggage of the dollar gold price and focusing on the local currency price in major producing countries like South Africa and Australia. Here plunging currencies and serious cost-cutting have dramatically improved industry economics.

Take South Africa: brokers Fleming Martin reckons industry profits will increase fivefold from the first to the third quarter. Against that sort of backdrop, even a dollar investor can afford to regard a 20-25 per cent loss on the currency as a barely visible blemish. Meanwhile, the forecast dividend yield of around 7 per cent means investors are paid to hold the shares. Share prices have yet to reflect this improved outlook. The irony is that it will probably take a rally in the dollar bullion price to focus attention.

#### Brazil

As the international crisis worsens, Brazil is playing for time. This is a dangerous strategy. Granted, if the authorities can hold out for another six weeks, President Cardoso, who is on track to be re-elected, should be able to tackle the country's soaring budget deficit - running at 7 per cent of national income. That would allow interest rates to fall, further cutting the deficit, restoring stability and confidence.

But does Brazil have six weeks? The country's domestic debt amounts to a staggering R\$340bn (\$290bn), with an average maturity of just nine months and almost R\$100bn falling due by October. With the government unwilling to raise interest rates before the election, the central bank is being forced to roll over those borrowings into new bonds, linked either to the US dollar or overnight rates. This tactic brings an immediate reduction in the cost of funding - Brazil pays perhaps 15 per cent for dollar-linked debt compared with official rates of nearly 20 per cent. But with almost 60 per cent of domestic debt linked in this way, it also raises the stakes. If the currency comes under pressure or the government is forced to raise interest rates against its will, there would be an immediate impact on the already bad fiscal situation.

And pressure has been increasing. Net capital outflows amounted to \$2.5bn last week, despite \$3bn of privatisation

## ROW OVER LTCB PLAN SPARKS SHARP MOVEMENT IN BONDS AND SWAPS

### Markets unnerved by fears over Japan's bank crisis

By Gillian Tett and Michio Nakamoto in Tokyo and Gerard Baker in New York

Concerns about the health of Japan's financial sector yesterday triggered a sharp movement in the government bonds and "swaps" markets.

The spread - or difference between the interest rate charged on 10-year government bonds and "swap" contracts between banks - surged by 20 basis points during the day's trading. This was more than the 13-basis-point movement recorded during the entire previous 12 months.

The swing was sparked by a growing political row over the troubled Long Term Credit Bank of Japan, which last week unveiled a restructuring plan in a bid to receive up to ¥1,000bn (\$8.9bn) of public funds.

Opposition parties yesterday forced the cancellation of a parliamentary debate on the problems by boycotting a special financial committee meeting.

Markets were unnerved by growing fears that the political row could undermine the country's ability to resolve its wider financial sector problems.

The yield on long-term Japanese government bonds tumbled to a record low of 1.106 per cent. The Nikkei 225 average, the key stock market indicator, fell 1.4 per cent to close at 14,666.03, as banking shares slid 3.9 per cent.

The swing in the longest-dated swaps market indicates that investors now believe that securities issued by private banks are becoming even riskier.

The opposition parties are opposed to helping the LTCB without a clearer explanation from the government as to why the rescue is necessary. The Democratic Party of Japan, the leading opposition party, suspects that the ruling Liberal Democrats (LDP) plan to put public funds into LTCB even though they know the bank is insolvent. Under Japanese rules, public funds cannot be injected into insolvent banks.

The opposition is proposing alternative legislation to stabilise the financial system, which would include liquidating or nationalising failed banks.

Finance ministry officials are concerned that allowing a large bank to fail would have dire consequences. They prefer to see banks consolidate

as in the planned merger of LTCB and Sumitomo Trust - and believe public money is needed to help that process.

William McDonough, the president of the New York Federal Reserve, repeated the US view that Japan held the key to a broader Asian recovery. The main goal should be reform of the ailing banking system.

He said the US had co-operated with Japan in currency market intervention to support the yen in June because Japan was moving in the direction of problem solving solutions that had created an opportunity.

He said the main target of reform should be freeing up the underlying asset markets on which the bulk of Japanese banks' non-performing loans were advanced - mostly property. While measures aimed at cleaning banks' balance sheets themselves were welcome, they would not be fully effective without action on the underlying problems.

"No banking system in my knowledge has ever been rescued if the underlying assets beneath the loans are not cleaned out. That's been the common characteristic of all banking system recoveries," he said.

### Clinton and Blair plan meeting to explore 'third-way' policies

By Mark Suzman in Washington

President Bill Clinton and Tony Blair, the UK prime minister, are expected to meet in New York next month to spread their move away from traditional political ideologies.

The one-day conference, tentatively scheduled for September 21, is expected to explore the "third way" promoted by Mr Clinton and Mr Blair as an alternative to the left/right policy debates of the past. Among others expected to attend are Romano Prodi, the Italian prime minister, and Fernando Henrique Cardoso, Brazilian president.

New York University, which is expected to host the gathering, confirmed that an event was taking place but could not provide details about the agenda. However, government officials said that Mr Clinton,

Mr Blair and Mr Prodi, all of whom are planning to be in New York for the United Nations General Assembly session, were expected to speak at the conference under the broad theme of "Democracy in the Global Economy".

The event's timing, close to the German election, means that neither Helmut Kohl, the German chancellor, nor Gerhard Schröder, the Social Democrat leader who is openly mocking himself on Mr Clinton and Mr Blair, is expected to attend. It also remains unclear whether Lionel Jospin, the Socialist French prime minister, will participate.

The event follows several meetings between top US and UK officials over the past year to forge a common approach that relies on private-public partnerships to tackle issues such as welfare reform rather than looking to the state for solutions. It

has been put together by the White House and Downing Street as a way of focusing attention on their new policy model at a time when many countries are grappling with the problem of balancing economic growth and social justice in an unstable international climate.

The timing of the conference may also help the embattled US president. It is expected to come shortly after the delivery of a report to Congress by Kenneth Starr, the independent counsel, on possible criminal wrongdoing related to Mr Clinton's admission of an "inappropriate relationship" with Monica Lewinsky, a former White House worker. Mr Clinton's advisers believe if he is able to emphasise his strong policy credentials and international stature, it could help sway public opinion and head off possible impeachment hearings.

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## FT WEATHER GUIDE

**Europe today**

The north-west will be mostly dry with some sun. Central and eastern regions will have sun and showers. Some of the showers may be heavy or thundery, especially across the Baltic states and Belarus but also later around the Alps and the Carpathian mountains. Scandinavia will have showers, some lengthy, while parts of Finland will stay dull and wet. The south will be mostly sunny but thundery showers may break out over the north of Spain, Italy and the Balkans.

**Five-day forecast**

The north will become drier. Central and eastern areas will have scattered showers, mostly clearing by Sunday. Thundery downpours will break out over Italy this weekend, spreading across Greece and the Balkans early next week, when rain may threaten France and Spain.

**TODAY'S TEMPERATURES**

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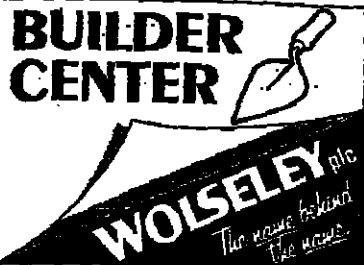
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# FINANCIAL TIMES COMPANIES & MARKETS

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Week 35

## INSIDE

### Harnischfeger to cut its workforce by further 16%

Harnischfeger Industries, the US supplier of equipment used in the mining sector, is cutting its workforce by a further 16 per cent, in addition to 750 job losses already announced. The news came as it posted a bigger-than-expected third-quarter loss of \$38.6m. Page 14

### Celsius eyes the consolidation wave

Celsius, the Swedish defence group, is considering a radical overhaul of its military equipment arm, a move prompted by the consolidation wave in the European defence sector. Page 12

### Billion in dividend difficulty

Billiton, the mining group under pressure as the year's worst financial performer, has run into problems over its \$2.57bn (\$450m) offer to gain full control of South Africa's Anglo. Page 15

### Bulgaria to be hub for Russian gas

An accord with Russia, signed earlier this year, has moved the Bulgarian government of Ivan Kostov (left) nearer to its ambition to become a transit hub for gas being shipped from central Asia to central Europe. The deal, which ends a Sofia-Moscow dispute over gas prices after coming from the 6bn cubic metres a year now to 19bn cubic metres in 2010. Commodities, Page 20

### S Africa dives 6% on domestic woes

Johannesburg stocks have been hit by bad news on the domestic front this week. Disappointing inflation data, talk of bank sector troubles and a Cape Town bomb explosion caused the all share index to plunge about 6 per cent yesterday. Emerging Market Focus, Page 30

### NY Times thrives on renewed focus

The New York Times Company has emerged well from the early 1990s recession. Since Arthur Sulzberger Jr became chairman in October, it has a renewed focus on newspapers, pruning 1980s forays such as a stake in a Florida golf resort. Page 14

### Norway in more oil investment cuts

Norway, the world's second largest oil exporter, is to slow still further investment in offshore oil, having already postponed 12 field developments this year. Commodities, Page 20

### Asia prompts dip in debt turnover

Second-quarter turnover in emerging markets debt fell from \$1.42bn in 1997 to \$1.40bn this time as the Asian crisis, spreading across the developing world, scared off non-specialist investors. Emerging Market Debt, Page 18

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## GERMAN CARRIER BOOSTED BY PASSENGER GROWTH, LOWER COSTS AND LINKS WITH OTHER AIRLINES

# Lufthansa profits double to \$513m

By Graham Rowley in Frankfurt

Lufthansa, the German airline, more than doubled pre-tax profits to DM528m (\$513m) in the first half of this year, underpinning its position as one of Europe's most profitable carriers.

The airline, which was fully privatised last October when the government sold its remaining stake, was helped by low fuel prices, strong passenger growth and lower costs.

The figures, published yesterday, show the fruits of the Star Alliance - its link-up with five other airlines, including United of the US, which allows

the carriers to funnel passengers onto each other's flights.

The number of passengers travelling on Lufthansa rose 10.5 per cent to more than 18m in the first six months.

The results provide fresh evidence of the airline's drive to cut costs, including labour costs. Personnel expenses fell 1 per cent to DM2.6bn.

Jürgen Weber, chief executive, has sought to rein in expenses especially in high-cost Germany, a move which triggered warning strikes two years ago until a more flexible wage deal was agreed.

Lufthansa is due to begin negotiations with unions on a new pay deal this autumn.

The carrier said it was expecting "a distinct improvement" in earnings for the whole of this year.

Last year Lufthansa increased pre-tax profits to DM1.65bn. The airline said the Star Alliance added DM400m earnings last year and analysts expect it to contribute about DM450m this year.

Despite the results, which beat analysts' expectations, Lufthansa shares fell DM2.4 to DM45 yesterday.

Shares rose sharply on Tuesday in expectation of strong results but were dragged down yesterday as the German stock market fell, analysts said.

The airline has strong

growth on international flights but is losing money on domestic routes where it faces high costs.

It has taken steps to franchise some less profitable flights to local airlines and has reached agreement with Deutsche Bahn, the national rail carrier, to take passengers on some short routes.

Under Mr Weber, the airline has furthered its strategy of channelling passengers on European flights into its chief hub in Frankfurt where they then take the airline's more lucrative intercontinental flights.

The airline is also using the new financial freedom won by

full privatisation to revalue hidden assets which could give it a big financial boost.

It plans to list its shares in Amadeus, the ticketing system, in DHL, the express mail company, and in its catering division, although it has no plans to sell these stakes.

The airline said the sale last year of its stake in Hapag-Lloyd, the transport and tourism group, generated DM377m, which, if included in first half results, would boost pre-tax income to DM1.3bn.

Turnover in the first six months increased 7.6 per cent to DM10.6bn. Net income rose 48.8 per cent to DM924m.

## Deutsche Bank dips after credit rating cut

By Edward Lucas

Shares in Deutsche Bank, Germany's largest private sector bank, yesterday fell by more than six per cent after Standard & Poor's lowered its triple A credit rating - the highest rating possible.

The move, which coincided with growing worries about the extent of German banking exposure to Russian borrowers, leaves just one commercial bank in the world with a triple A rating from S&P: Rabobank, the Dutch bank. Seven banks had this rating in 1992 and even more in the 1980s.

"Banks everywhere, including Deutsche Bank, are under pressure from growing competition and globalisation," said Barry Hancock, managing director of financial institutions at S&P. "Banks are also losing business to capital markets, especially the bond market."

The agency said Deutsche Bank's exposure to Russian and Asian borrowers had played a relatively limited part in its decision to downgrade it by one notch to AA+. Deutsche Bank's DM1.34bn (\$740m) loan exposure in Russia is considered manageable and is covered by a 50 per cent provision.

More important had been consideration of Deutsche Bank's high cost structure and the bank's low return on equity which compared badly to its international competitors. At just 3.26 per cent, the bank's adjusted return on equity compared poorly to Rabobank, for example, which achieved a return on equity of 8.84 per cent last year, according to the agency.

The agency also pointed to persistent worries about the performance of Deutsche's investment banking arm - formerly known as Deutsche Morgan Grenfell.

Despite a restructuring programme to integrate its investment banking arm with the parent commercial bank, the drive had yet to bear fruit. In addition, Deutsche's increased emphasis on high-cost investment banking had magnified its "dependence on more volatile trading and capital markets activities," said S&P.

Deutsche Bank's rating outlook remains negative, which implies a strong possibility it could be downgraded again. Moody's, the other leading credit rating agency, rates the bank Aa1, its second highest category.

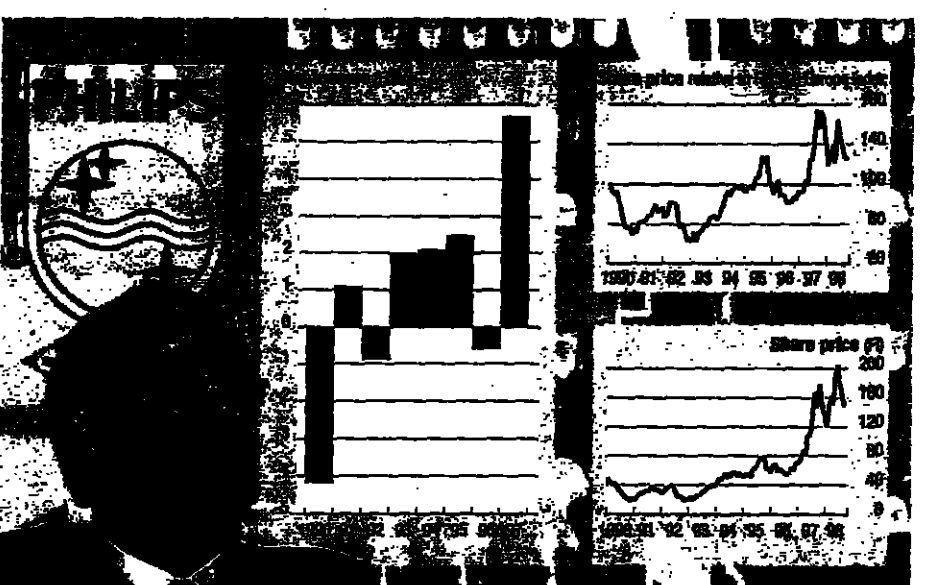
## Faulty lines leave PCC in danger of being cut off

Philips' president may make its cellular venture an offer it cannot refuse, writes Jeremy Gray

Or Boonstra does not suffer losses gladly. Since taking over almost two years ago, the hard-hitting president of Philips (nicknamed "Corleone" in the industry) has transformed the Dutch electronics giant into a money-making machine by refocusing on a handful of core divisions and shedding unprofitable ones.

In doing so Mr Boonstra has not shied away from short, sharp shocks. Withdrawing from Grundig, the struggling German electronics group, cost Philips about \$740m (\$186m) last year alone.

So shareholders are naturally curious to see whether Mr Boonstra will eventually put another laggard, Philips Consumer Communications, on the auction block.



The president's patience is clearly running out. Deepening losses at the joint venture with Lucent Technologies, the US telecommunications manufacturer, will probably drag Philips' flagship consumer products business into the red this year.

Tuesday's revelation that PCC, one of further product delays, will not break even this year precipitated the departure of Mike McFigue, PCC's chief executive, and lopped 5 per cent off Philips share price yesterday.

Mr McFigue was allowed only 10 months to get it right since PCC (which is 80 per cent owned by Philips) started operations last October. His successor, Thom Schwartzburg, faces the daunting task

of boosting PCC's share of a cellular phone market dominated by a formidable trio - Motorola, Ericsson and Nokia - and countering price erosion in fixed-line models.

PCC makes cellular, fixed-line and cordless handsets as well as pagers and answering machines. In little more than two years - Philips began making GSM digital phones on its own in 1996 - the company has garnered nearly 7 per cent of the global telecom market, thanks partly to Lucent's input at PCC.

But it still has a long way to go to reach its goal of a 10 per cent market share (including fixed-wire handsets) by 2000

and, in the process, displacing one of the leading cellular manufacturers.

The mobile phone market is growing at a rate of about 50 per cent a year, suggesting there is ample room for savvy newcomers. However, Marc Langeveld, an analyst at German investment bank Metzler, estimates that PCC would have to grow by 200 per cent a year to catch up with the top three.

"This seems a little too optimistic, especially given the fact that PCC lags Nokia and Ericsson in its launch of dual mode handsets," Mr Langeveld says. These are vital in the fast-growing American market,

where a tangle of providers favours handsets that can switch between regional and national networks.

Some observers doubt that PCC will ever make the big league, or even reach the profit threshold in 1999, as Philips is predicting.

"They will have a hell of a job to reach the 10 per cent they are targeting," says Cornelle Couwenberg, an analyst at ABN-Amro in Amsterdam. "The business will need about five years to achieve decent margins because it entered the market too late," he adds.

The short-term outlook has been darkened by delays in introducing fixed-line and cel-

## Avesta Sheffield to cut 1,000 jobs as metal prices collapse

By Tim Burt in Stockholm

Avesta Sheffield, one of the world's largest stainless steel manufacturers, yesterday unveiled a restructuring plan involving 1,000 job losses following a collapse in metal prices and mounting overcapacity.

The Stockholm-based group, majority owned by British Steel, predicted that plants in the UK and Sweden would bear the brunt of the redundancies, equivalent to 13 per cent of the total workforce.

Senior executives blamed weak demand and excessive costs for the overhaul, which is expected to take two years.

The move marks the latest attempt to improve profitability at the Anglo-Swedish company - formed by the 1992 merger of Sweden's Avesta

with British Steel's stainless steel operations.

Although the restructuring plan will not be completed for three months, officials warned that there could be significant job losses in the UK, as heat treatment of plates is being switched from Sheffield to Degafors in central Sweden.

Some industry analysts also predicted that the group's Panteg steel plant in north Wales could be shut down.

Mr Pettifor confirmed the group was considering the disposal of its Wales-based Staleo Hardly tube business. He also announced plans to scrap the old divisional structure, replacing it with nine new business areas.

He was speaking after Avesta Sheffield announced first quarter losses of SKr324m (\$38.4m), compared with pre-

tax profits of SKr188m for the first three months of 1997.

The results, achieved on sales down from SKr4.92bn to SKr4.65bn, were underpinned by a 5 per cent decline in deliveries and falling prices for both raw materials and finished products.

In the past six months Avesta Sheffield has seen nickel prices fall to an 11-year low of \$1.82 per pound, while stainless steel prices have fallen from a 1997 peak of DM5.27 (\$1.80) per kg to DM2.60 per kg.

Such price volatility contributed to operating losses of SKr216m compared with a SKr289m profit in the three months to April 30 last year.

Avesta Sheffield shares, which have fallen by 58 per cent over the past year, closed down SKr1.30 at SKr3.1.

## Asahi Breweries plans shake-up

By Alexandra Harney in Tokyo

Asahi Breweries, Japan's number two brewer, plans to reorganise its operations and hire consultants to review its international activities as part of an effort to expand its share of the global beer market.

The moves are the latest steps by the group to challenge rivals Kirin and Sapporo in the competitive Japanese market, and to cultivate a brand image in Asia and Europe. Thanks to the success of its Super Dry brand, Asahi threatens to topple Kirin from the top position in Japan.

"It is remarkable that Super Dry will probably be the only Japanese beer to gain global recognition. The beer has a taste that will be appreciated

overseas... it is really only a question now of how far the beer can go," said Yuki Fujimori, industry analyst at Goldman Sachs in Tokyo.

Asahi will cut staff at its head office by 20 per cent, deploying them to other regions of Japan and overseas. It will also form two advisory boards to reconsider the group's management.

The group, which has a 38 per cent share of the Japanese market, has begun building a factory in China to manufacture its Super Dry brand. Asahi already has Chinese operations as well as joint ventures with Miller Brewing of the US, Molson, the Canadian beer company, and Bass of the UK. It aims to treble North American sales from 770,000

cases last year to 2m cases by 2000.

Asahi's move follows announcements by Kirin and Sapporo that they would cut staff and close factories to reduce costs. Competition between the three has intensified as the collapse in consumer demand has dried up sales across the sector. In July alone beer shipments fell 13.5 per cent from the previous year, said Goldman Sachs.

"Whether they really put some muscle behind their management plan is the issue" that would determine future profitability, said Mr Fujimori, noting that Asahi had not announced any targets for lowering its cost of capital.

World stocks, Page 30

This announcement appears as a matter of record only

**Zamil Industrial Investment Company**

**Zamil** **ZAMIL STEEL** **Zamil**

**SR 532,800,000**  
(US\$ 142,080,000)

**Private placement and Conversion to Joint Stock Company**

Financial Advisor  
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June 1998





## COMPANIES &amp; FINANCE: EUROPE

TELECOMMUNICATIONS GERMAN CONGLOMERATE WELCOMES OPPORTUNITY TO DOUBLE ITS HOLDING SOONER THAN EXPECTED

## Mannesmann clear to lift Olman stake

By Paul Betts in Milan and Tobias Buck in Bonn

The Italian government yesterday cleared the way for Mannesmann, the German conglomerate, to almost double its stake in Olivetti's fast growing cellular and fixed-line telecommunications businesses.

Olivetti confirmed that the Ministry of Communications had expressed a "positive view" on the German company's plans to increase its stake in Olman, the com-

pany that controls the Omnitel cellular telephone business and the Infostrada fixed-line telecoms venture.

Mannesmann last year paid 11,100bn (\$69bn) for a 28 per cent stake in Olman in what was seen as the first significant step in Olivetti's recovery strategy. The German group also agreed to acquire a further 24.9 per cent stake for 11,250bn by March 2000.

Mannesmann yesterday welcomed the decision, saying it would allow it to lift

its Olman stake to 49.9 per cent earlier than expected.

"Originally, it was planned for us to buy the second tranche at the latest in March 2000. Now things will go quicker," it said. The group declined to say when it would buy the stake, but it is expected that the two companies will meet this week to seal the deal.

Mannesmann says it will finance the latest stake purchase from the DM3bn raised through a capital increase earlier this year. That fund-

raising was earmarked for European expansion.

Mannesmann's telecoms divisions - Mannesmann Arcor for its fixed-line business and Mannesmann Mobilfunk for mobile phones - have been among the most successful operators in Germany's newly liberalised telecommunications market, with combined sales of DM4.12bn (\$2.3bn) in the first half of 1998.

Mannesmann Arcor yesterday also said it would cut prices for long-distance calls

by up to 35 per cent in the latest strike in Germany's increasingly vicious price war. It will also introduce services such as personal telephone numbers that customers can keep for life.

Meanwhile in Italy, Olivetti's shares have surged on the Milan stock exchange on Omnitel's spectacular growth and the anticipation that Mannesmann would increase its stake in Olman.

The shares continued their rise yesterday in a depressed market, climbing more than

2 per cent in early trading. This followed a 3.7 per cent rise on Tuesday to 1,275. Olivetti shares were trading as low as 1,600 at the height of the company's financial crisis two years ago.

Omnitel last week said it had attracted 500,000 new subscribers last month, bringing the total to more than 4.4m since the cellular telephone venture started in December 1995.

The company is now the fourth largest GSM cellular operator in Europe.

## Celsius looks to catch the defence consolidation wave

Chief executive admits Swedish group needs extensive surgery in order to improve its disappointing returns, writes Tim Burt

Celsius, the Swedish defence group, is considering a radical overhaul of its military equipment division in a move prompted by the consolidation wave sweeping the European defence sector.

Senior executives at the partly-privatised group believe Celsius is too thinly spread - with eight different businesses in the defence division - and must reduce its exposure to low-margin products and high risk contracts.

Lars Josefsson, the chief executive recruited last year from Ericsson, the telecommunications group, has told colleagues to prepare for the disposal, merger or withdrawal from some business areas.

"Our product portfolio is far too wide, and we are stepping up the search for consolidation and restructuring opportunities," he says. "After this process is over, we may be left with no more than four defence businesses."

His aim is to lift defence margins from a lowly 2 per cent to around 8 per cent. But he admits Celsius is unlikely to achieve that without some major surgery, particularly at a time when the Swedish government is seeking savings of SKr2bn (\$211m) a year in its SKr40bn defence budget.

The group has already identified areas ripe for consolidation by announcing plans to form a joint Nordic ammunition company with Patria Industries of Finland

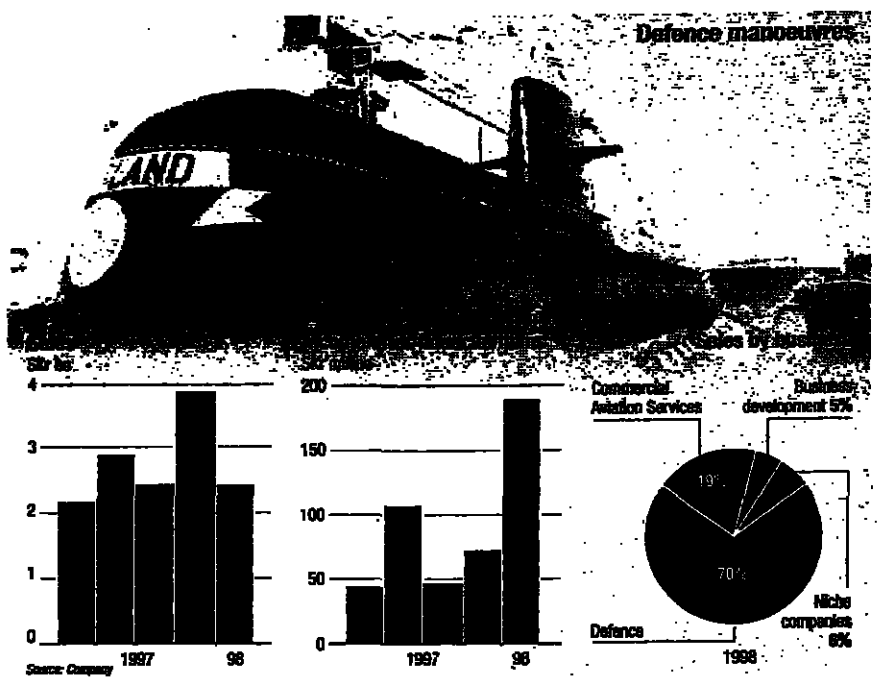
and Raufoss of Norway. In recent weeks, moreover, it has signed a technology-sharing deal covering conventional submarines with France's state-run DCN shipyard, and unveiled a missile joint venture with Daimler-Benz Aerospace.

Mr Josefsson, who expresses disappointment at Celsius's returns, hints that such ventures will allow it to focus on core businesses. "We are certainly moving away from ammunition as a stand-alone unit, even if we actively support the Nordic joint venture."

While he is reluctant to name disposal candidates, he emphasises that the defence division will concentrate in future on naval systems, where it manufactures submarines and small warships, while expanding its service and maintenance activities from aerospace to army and naval applications.

That effort is likely to be coupled by the group's withdrawal from non-core areas. Celsius officials say a divestment programme has been drawn up for parts of the "niche companies" division, which includes offshore equipment, engineering operations, shiprepair yards and real estate. Last year, those businesses reported a combined loss of SKr17m on sales of SKr1.12bn.

Celsius is also thought to be re-examining its presence in several other businesses, including explosives. Although it boasts leading-edge technology in civil explosives - with applica-



tions from rocket propellants to mining - the business does not have the critical mass to become a significant profit contributor.

In spite of Mr Josefsson's restructuring efforts, questions still remain over whether a streamlined Celsius will be large enough to withstand consolidation pressures in the defence industry.

The Swedish government - which holds about 60 per cent of the group's voting rights and 25 per cent of the share capital - clearly believes that it may not be strong enough on its own.

Hinting that the state would be ready to reduce its stake, Anders Sundström, industry minister, told Swedish reporters recently: "There are many exciting things for Celsius to do in Europe. Sweden's defence industry will die out if it relies solely on the Swedish military."

The company's chief executive, who recently announced first-half profits up from SKr159m to SKr299m, says talk of extinction is premature.

In Celsius's favour, he points out that it has a strong exposure to common procurement programmes in

the Nordic region, dominated by a prospective SKr10bn contract for new submarines. And it boasts excellent technology in areas such as minesweeping systems and radar tracking equipment.

The group also plans to cut its dependence on defence by expanding its commercial aviation division. At the start of the decade, Celsius had little or no exposure to civil aviation. But it has since acquired a sizeable engine repair and overhaul division. Compared with the modest

## Petronas set to launch takeover bid for Engen

By Victor Mallet in Johannesburg

Petronas, the Malaysian state oil company, is considering a bid for Engen, the biggest South African oil group, which has interests in both distribution and exploration.

With oil prices low, and the South African currency and stock markets under-

going a bout of weakness, Petronas sees a tempting opportunity to buy the 70 per cent of Engen it does not already own.

It is expected to offer R23 a share, compared with the R34.50 it paid in 1996 for its current 30 per cent stake. A bid at R23 would value Engen at R41.1bn (\$844m). Yesterday, Engen shares rose 37 per cent to R19.91.

Engen, which is South Africa's biggest fuel retailer, has a refinery in Durban and also controls 57.5 per cent of Energy Africa, the exploration and production company.

Energy Africa directors are concerned about the Petronas approach to Engen, partly because they fear their company will be undervalued in the deal

because of weak oil prices. They are also protective of the company's position as the only black-controlled international oil exploration and production group.

The Energy Africa board issued a statement saying it was "reviewing the situation with its financial advisers N.M. Rothschild".

Engen, which had previously said it wanted to

attract a substantial black South African shareholder, said it would consider the possible Petronas bid at a board meeting today.

Avmin, the minerals arm of South Africa's Anglovaal group, said yesterday it would invest as much as \$140m in the Chambishi and acid plants and the Nkana slag dumps that it has agreed to buy from

Zambia Consolidated Copper Mines.

Chambishi Metals, Avmin's new company, will hold 90 per cent of the operation once the deal is concluded, with ZCCM retaining the remaining 10 per cent.

Avmin also announced a fall in net earnings to R155m in the year to June, from R242m last time.

The SKF Group, operating in 130 countries, is the world leader in rolling bearings.

## Report on operations for the six months ended June 30, 1998.

SKF's consolidated income, after financial income and expense, in the first half of 1998 amounted to SEK 817 m, compared to SEK 1 103 m in the first half of 1997. Income in the second quarter of 1998 totalled SEK 351 m, compared with SEK 602 m in the second quarter of 1997, and SEK 466 m in the first quarter of this year.

Group sales during the first six months of 1998 amounted to SEK 19 171 m (18 747), an increase of 2 percent compared with first-half 1997 sales. Sales in the second quarter this year totalled SEK 9 695 m (9 883).

Earnings per share, after tax, amounted to SEK 4.30 (5.90).

Göteborg, July 15, 1998  
Aktiebolaget SKF

Average rate of exchange:  
Jan - June 1997 1 GBP = 12.43 SEK  
Jan - June 1998 1 GBP = 13.12 SEK

SKF

## BolsWessanen down 18%

By Jeremy Gray in Amsterdam

BolsWessanen, the Dutch food and beverage group, said yesterday it would focus on global dairy products following an 18 per cent drop in first-half profits caused by Asia's economic turmoil.

High raw-material costs and the impact of the Asian financial crisis, which squeezed margins, were blamed for the fall in net earnings from F17.2m to F16.5m (\$32.4m). Sales rose 12.2 per cent to F12.978bn.

In Amsterdam the shares closed down 60 cents to F126.50.

The company, soon to be renamed Wessanen, warned in June that first-half earnings would be 15-20 per cent lower.

Mac Zondervan, chairman, said the company was looking at several options to become a global dairy company. These include a large acquisition in the US or Europe, a merger, or even the sale of BolsWessanen. "The goal is there. How we get there is less important," Mr Zondervan said.

The company has been divesting its wine and spirits activities, culminating in the sale of Bols Royal Distilleries, which makes gin, vodka and liqueurs, to CVC, the venture capital group.

This sale unwinds the 1996 merger with Wessanen, then an independent dairy products group. Proceeds from the disposals would total about F150m, the company said.

The divestments and poor business conditions in south-

east Asia led BolsWessanen to forecast a 25-30 per cent drop in 1998 net income.

VNU, the Dutch publishing group, surprised the markets yesterday with a 38 per cent rise in first-half earnings stemming in part from a large US acquisition.

Net earnings before extraordinary items jumped from F1176m to F1242m (\$119m). World Directories, a publisher of telephone and professional directories which VNU bought last December, accounted for F15m of the increase. Sales advanced 39 per cent to F12.57bn.

The shares rose more than 5 per cent on the news and closed at F182.10, up 3.9 per cent in a weak Amsterdam market. Analysts had predicted a net income gain of up to 24 per cent.

## Pro Sieben boosts film rights investment

By Frederick Stilleman in Berlin

Pro Sieben, the German media group, said yesterday it would invest about DM500m (\$278m) a year for the foreseeable future in the purchase of film rights from US and domestic producers.

The company, which owns Germany's most profitable television network, also said it would invest directly in the production of original German-language TV shows and cinema films.

The Munich-based company, which made an initial public offering of non-voting shares last year, started its investment strategy earlier

this month when it made commitments to several distributors for the broadcast rights to 1,150 films and more than 1,000 hours of TV series productions.

The restocking of the library was welcomed by analysts, who also approved of the decision to invest in domestic productions. High prices for US films and changing tastes in Germany have driven demand for domestically produced content, though analysts also warn of changing established programming formats.

Georg Kofler, chairman, said the deals would secure Pro Sieben's position within Germany's cluttered free-to-

air television market. In the first six months, market share for the company's two channels, Pro 7 and Kabel 1, in the key 14 to 49-year-old age bracket declined 0.4 per cent to 18.7 per cent.

Performance at Pro 7 was dented by big sporting events, such as the Winter Olympics and the football World Cup, which were broadcast by competing networks. The flop of some in-house productions, such as a talk show, was a further negative factor.

On the financial side, however, Pro Sieben recorded its best half-year result. Sales rose 5 per cent to DM986m and pre-tax profits increased

## NEWS DIGEST

## INSURANCE

## Storebrand falls 17% after operating costs rise

Storebrand, Norway's largest insurer, yesterday blamed volatile equity trading and rising operating expenses for a 17 per cent fall in first-half profits. The insurance group, which rebuffed a NKr19bn (\$2.4bn) takeover bid from Christiania Bank earlier this year, said operating profits fell from NKr1.96bn to NKr1.82bn - even though combined life and non-life premiums and general insurance income rose from NKr14.8bn to NKr17.3bn. "Operating profits were affected by somewhat lower financial income in the second quarter and by higher insurance-related expenses," said Age Korsvold, chief executive.

Operating expenses rose from NKr12.8bn to NKr15.6bn, following increased costs incurred on financial assets and changes in life insurance reserves in the six months to June 30. That helped reduce profits for Storebrand Livsforsikring - the life arm and largest single business - from NKr1.71bn to NKr1.32bn, in spite of premium income that rose 21 per cent to NKr5.02bn. Net financial income from insurance declined from NKr3.9bn to NKr3.87bn, while net gains on securities fell to NKr765m, down from NKr1.03bn. Storebrand's shares fell NKr1 to NKr54.

Mr Korsvold said the group had maintained its market share in non-life insurance. "At the same time, we have a general cost trend that we are coming to grips with - this will have a positive effect on both expenses and the efficiency of the organisation," he added. After allocating funds to policyholders, group profits rose from NKr534m to NKr585m, while earnings per share rose from NKr1.69 to NKr1.98. Tim Burt, Stockholm

## RETAILING

## Metro benefits from integration

Metro, Germany's biggest retailer, increased pre-tax profits 6.5 per cent to DM102m (\$57m) in the first half of this year as it began to benefit from the integration of big acquisitions made in 1997. Profits last year were depressed by restructuring and start-up costs linked to its European expansion after it bought Mäko, the Dutch cash-and-carry group. Sales in the first half increased 62 per cent to DM42.6bn, illustrating the fruits of the new acquisitions. However, adjusted for changes in the group, the increase was 5.4 per cent. The proportion of sales from outside Germany rose to 36 per cent from 8 per cent before the expansion, underlining the extent to which Mäko has enlarged Metro's reach across Europe. Metro said unadjusted pre-tax profits were DM102m, compared with DM94.8m. Graham Bowley, Frankfurt

## BANKING

## BNL sale to proceed

The privatisation of Banca Nazionale del Lavoro will go ahead in October without a merger agreement with the Rome-based bank and the Banco di Napoli. BNL yesterday confirmed that its three-year strategic plan did not envisage a merger with Banco di Napoli and that its stake in the bank was "purely financial". BNL holds 49 per cent of Banco di Napoli Holding - which controls 51.49 per cent of the bank - with INA, the insurer, holding 51 per cent. BNL was originally due to merge with Banco di Napoli ahead of its privatisation but the plan collapsed after the Italian Treasury rejected a bid by BNL to acquire the dominant core shareholding stake as part of the bank's privatisation. Instead, the Treasury announced earlier this month it would go ahead with the L7,000bn (\$3.94bn) flotation in October with about 50 per cent of the bank's shares to be offered to the public. About 20 per cent of the shares will go to strategic shareholders led by Banco Bilbao Vizcaya, whose bid for a 10 per cent stake has been accepted by the Treasury. BNL also said yesterday its first-half consolidated net profits rose to L82bn from L69bn in the first half of last year. Paul Betts, Milan

## SHIPPING

## AP Moller-Maersk hit by Asia

A.P. Moller-Maersk, the Danish shipping and energy group and world's leading container carrier, said yesterday the Asian financial crisis had held back earnings in some businesses, as it warned of further trouble ahead. Mr Moller, senior vice-president, said the effect of too many loaded containers going to the US and Europe from Asia and too many empty containers going the other way had created "increasing imbalances in the market and rising costs for repositioning empty units". The group did not break down figures for the container division. However, earnings after depreciation from the shipping activities - including container services, tankers, bulk shipping, offshore supply vessels, and offshore drilling - were up slightly to DKr1.09bn (\$159m) from 1.06bn. Most of this gain came from crude oil carriers, which improved, while results for supply vessels and drilling and floating production were flat. Bulk carriers, gas carriers and product carriers reported lower earnings. Group turnover rose from DKr18.84bn to DKr21.55bn. Profits before gains on disposals and other items were down from DKr2.26bn to DKr2.49bn. Hilary Barnes, Copenhagen

## LUXURY GOODS

## Tag Heuer advances 5%

Tag Heuer, the Swiss luxury watch company, signalled yesterday that the impact of the Asian crisis on its business was less than feared. It reported a 5 per cent increase in first-half net income to SF26.7m (\$18m) in spite of a 4 per cent drop in sales to SF216.4m. In June the company's shares dropped sharply after it warned that first-half sales could be 10 per cent down. Operating income fell 22 per cent to SF37.7m. The absence of special charges and lower interest and taxes, meant there was a slight increase in net income. William Hall, Zurich

## CHEVY CHASE MASTER CREDIT CARD TRUST II

U.S.\$138,000,000

Class A Floating Rate Asset Backed Certificates, Series 1995-B

U.S.\$12,000,000

Class B Floating Rate Asset Backed Certificates, Series 1995-B

Class	Interest Annual Rate	Coupon Payment (\$/100)
A	5.90% (5.90% + 0.00%)	0.59
B	5.90% (5.90% + 0.00%)	0.59

These Interest Rates and Coupon Payments should be used when determining the interest payable on Tuesday, September 15, 1998.

Bankers Trust Company

## THE ROYAL BANK OF CANADA

U.S.\$200,000,000 Floating Rate

Debentures due 2025

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 28th

August, 1998 to 28th September, 1998

has been fixed at 5.9% per annum.

On 30th September, 1998 interest of

U.S.\$5.270833 per U.S.\$1,000 nominal

amount of the Debentures will be

due for payment. The rate of interest

for the period commencing 28th

September, 1998 will be determined on

28th September, 1998.

Agent Bank and

Principal Paying Agent

ROYAL BANK OF CANADA

Handwritten signature: J. J. J. J.



TELECOMS AUSTRALIAN GROUP CONFIRMS 'ACTIVE' TALKS WITH MICROSOFT AND IBM ON BROAD-BAND CABLE NETWORK

## Telstra up 17% but warns on competition

By Gwen Robinson in Sydney

Telstra, the Australian telecommunications group, said net profit jumped 17 per cent to A\$30m (US\$17.3bn) in the year to June but warned that intensifying competition would affect its traditional revenue streams.

Frank Blount, chief executive, also confirmed that Telstra was in "early active talks" with Microsoft and IBM of the US about joint ventures for its broad-band cable network.

The joint ventures, if agreed, would help Telstra counter criticism of its five-year effort to develop a hybrid fibre-optic and coaxial cable network - at a cost of more than A\$3bn - in Australia's main cities.

The cable network is used almost exclusively to distribute Foxtel pay-television channels, a joint venture between Telstra and News Corporation.

A deal with Microsoft and IBM would encompass internet and data transmissions as well as other multimedia applications, in a tie-up resembling Microsoft's US\$1bn investment in Comcast of the US. Mr Blount said the latest talks between Telstra and Microsoft took place earlier this month.

Telstra was also consulting other members of World Partners - the global telecommunications alliance in which the Australian group recently purchased a 10 per cent stake - about AT&T's announcement in July that the venture would not be continued beyond 1999.

Telstra was partially privatised last November, when the government floated one-third of its shares at a 30 per cent premium to the initial price of A\$1.85 per share. In yesterday's trading, Telstra partly paid shares fell 14 cents to A\$4.47 on heavy profit-taking.

In its first full-year earnings report since the flotation, Telstra said there was an 86 per cent rise in headline earnings on the previous year, when the group



Crane of a wave: Telstra's result represented an 86 per cent surge in headline earnings.

undertook large write-downs to prepare for privatisation. Sales rose 9 per cent to A\$16.8bn, while total revenues grew 8.3 per cent to A\$17.3bn. The strongest growth areas included mobile telephony as well as internet and data services, said Mr Blount.

Almost 8,000 jobs had been cut in the year, reducing labour costs by nearly 8 per cent to A\$3.7bn. Total expenses, however, rose 4.7 per cent before abnormal items to A\$12.2bn.

As a result, the group planned to increase cost-cutting this year, including further reductions in personnel, Mr Blount said. About 70 per cent of Telstra's costs were labour-related, he said. The new cuts would extend by a year Telstra's four-year programme to cut 25,500 staff. "It will now be 27,500 over five years," Mr Blount said.

Mr Blount's remarks yesterday lifted the tension between Telstra and unions. Workers belonging to the Communications, Electrical and Plumbing Union last week threatened to go on strike at the cuts. The CEPU said further stoppages were planned for next week and that up to 20,000 workers in New South Wales were expected to participate.

## Nissan Diesel looks at extending lay-offs Domestic operations hold back Pasmenco

By Alexandra Harney in Tokyo

Nissan Diesel, the troubled subsidiary of Nissan, Japan's second largest carmaker, is considering extending lay-offs of factory workers this autumn to reduce high inventory levels amid deteriorating conditions in the domestic truck market.

It would be the second time this summer the group has taken the step - unusual in Japan - of lengthening holidays. Shares in the group fell 3.4 per cent, or ¥3, to ¥278 on the news.

Employees at three factories outside Tokyo are to take six extra days' leave between now and October. The new policy may require more leave to be taken later in the year. The factories in Ago, Kono and Gunma employ about 4,500 in total.

"We anticipate that some people will not take the leave when they are asked,

and so it is impossible at this point to estimate how many workers will actually be involved," the company said. "The decision to grant temporary leave - unusual in Japan - was an attempt to reduce high inventory levels, the company said. However, analysts said conditions in the truck market would make this difficult, as the group's inventory was the highest in the industry."

Warburg Dillon Read estimates Nissan has nine months' inventory on its lots, compared with two months at Mitsubishi Motors and four at Hino and Isuzu.

Analysts said Nissan, which depended on orders from construction companies, had overestimated demand, which, according to Salomon Smith Barney, is at its lowest for 20 years. Truckmakers have been squeezed as builders have cut back capital spending.

"Even though they had come out with negative forecasts for this year, their expectations were still too optimistic given the current environment for capital spending," said Peter Boardman, analyst at Warburg Dillon Read in Tokyo.

Nissan, which reported a ¥1.3bn (\$8.9m) loss in the year ended in March, has been cutting costs in other areas as part of a restructuring launched earlier this year. It aims for cost reductions of ¥110bn by 2000 through revision of component purchases, cuts in administrative expenses, and consolidation of offices.

Analysts welcomed the cuts, but said slow sales would hinder plans to reduce inventory. "The only hope is the government increases its public works spending, which would raise companies' capital spending this year," said Mr Boardman.

By Gwen Robinson

The weakening of the Australian dollar and stronger zinc prices lifted profitability at the overseas operations of Pasmenco, the world's largest zinc producer, in the year to June.

The Melbourne-based mining company said lower production volumes and higher costs in its domestic activities held back total earnings, but the current year had started strongly, with the group's new Century Zinc mine in Queensland set for completion ahead of schedule and under budget.

Net profit in the year fell 2.2 per cent to A\$63.3m (US\$38.5m), including an after-tax abnormal gain of A\$23.7m from a reduction in environmental provisions at Pasmenco's Budel zinc operations in the Netherlands. The previous year's figure of A\$64.7m, however,

was weighed down by an

abnormal loss of A\$5.3m. Full-year sales volumes were maintained in Asia, but the region's economic difficulties resulted in lower metal premiums. However, the operating performance of the mining division was disappointing, said David Stewart, managing director. Pre-tax profit at the company's Australian operations fell from A\$68m to A\$66m because of production problems.

"The past year was a tough one for us," Mr Stewart said. "Our operating performance was below potential, but we are positioned to do better in the current year."

The continuing weakness of the Australian dollar, lower domestic costs and higher production volumes are expected to lift Pasmenco's performance in 1998-99. A refinery expansion in South Australia would increase zinc output and lower unit costs, the company said.

Pasmenco has also lowered the capital costs of the Century project from \$88m to \$85m and is expecting the first ore deliveries to the mill in the 1999 third quarter, three months earlier than scheduled.

Analysts said Pasmenco had made strenuous efforts to diversify its markets from its traditional Asian focus. Lower lead prices and production volumes, however, had pushed up the company's break-even zinc price - the key measure of competitiveness - from US\$94 a tonne to US\$98.

In the year, the average realised zinc price rose 6 per cent to US\$112 per tonne, contributing A\$20m to earnings. The realised lead price, however, fell 22 per cent to US\$562 a tonne.

## NEWS DIGEST

## TELEVISION BROADCASTING

## Advertising budget cuts behind 12% slide at TVB

Television Broadcasts, the biggest of Hong Kong's two terrestrial TV stations, yesterday reported a 12.24 per cent slide in interim profits, from HK\$205.2m to HK\$180.1m (US\$23.2m).

The group attributed the fall to tighter advertising budgets and unfavourable currency movements in important regional markets. Little upturn is expected in the near future, said Run Run Shaw, executive chairman. "We expect results will continue to be constrained by the economic turmoil now affecting Hong Kong and the region. Anticipating a challenging business environment in Hong Kong for at least the near-term, we continue to look for ways to reduce costs through improved efficiency."

The group's expansion in the satellite sector and in Taiwan is moving ahead. Earlier this year, its Galaxy project, which broadcasts two 24-hour-a-day channels across Asia, secured an uplink licence from the Hong Kong government, and TVB expects to begin uplinking via the new facilities early next year.

Earnings per share slid 12.24 per cent, from 49 cents to HK\$0.43, and the interim dividend is to be held at HK\$0.20. Louise Lucas, Hong Kong

## MALAYSIAN POWER CONTRACTS

## Tenaga seeks renegotiation

Tenaga Nasional, Malaysia's national power utility, confirmed it wanted to renegotiate contractually agreed payments for power with the country's independent producers to relieve pressure on its bottom line in the wake of the regional financial crisis.

The news follows an announcement by Mahathir Mohamed, Malaysia's prime minister, giving his approval to the renegotiations if they should benefit both parties. Standard and Poor's, the US credit rating agency, says Tenaga "has adequate cash to make its payments in full to lenders and independent power producers over the near term". The agency's intervention was provoked by negative comment in the Malaysian press after warnings about Tenaga's cashflow from Ahmad Tajuddin Ali, its executive chairman.

Mr Tajuddin called on producers to offer discounts on the power they sell, saying that if Tenaga "were to drown", the producers would suffer the same fate. The producers said they did not want to renegotiate power purchase agreements, but they were "willing to discuss solutions to assist Tenaga for the good of the industry".

Shella McNulty, Kuala Lumpur

## INDIA

## Petronas in LPG venture

India's Cabinet has approved a plan by the state-owned Indian Oil Corporation and Petronas, Malaysia's state oil company, to form a joint venture to import and distribute liquefied petroleum gas in eastern India. Each partner will have 50 per cent of the \$47m facility, which will be set up in Haldia, in West Bengal.

Some 4m people in India are waiting for LPG connections and the backlog is not expected to be cleared until 2001. Amy Louise Kazmin, New Delhi

## ADVERTISEMENT

## SOUTH AFRICAN RESERVE BANK

## South African economy suppressed by international financial turmoil

Extracts from address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-eighth Ordinary General Meeting of Shareholders of the Bank on 25 August 1998

The South African economy, which is rapidly being integrated into the evolving interdependent worldwide system of markets, could not escape all of the adverse consequences of the developments in East Asia. For a smaller economy such as South Africa, the choice is straightforward - either to share in the major benefits, but then also in the periodic adversities, of the global financial integration process, or to isolate the economy from the rest of the world, and be dependent on the limited resources and opportunities available in the country for its own economic development.

Initially, when the problems started to develop in Thailand in June 1997, South Africa was left unscathed. A very short-lived disruption was experienced in the South African financial markets in October 1997 as the crisis spread to other countries beyond the East Asian region. It was only since May 1998 that South Africa experienced the full adverse impact of the East Asian problem.

The South African banking system, fortunately remained sound and in good health, despite the major turbulence in the financial markets. It is important, however, that in addition to sound macroeconomic policies, the internationally accepted Basel Committee's basic rules and core principles for financial and risk management, as endorsed by the Registrar of Banks, be adhered to.

In light of the experience of the past few months, the South African Reserve Bank lends its support to efforts initiated at the international level to promote greater stability in the global financial environment. It is extremely difficult for any one of the smaller countries of the world to protect itself unilaterally against the vicissitudes of the evolving integrated world financial market system.

**Stable basis for future economic expansion**  
One of the major short-term objectives of macroeconomic policy in 1997 was to establish a stable basis for an expected new phase of more rapid economic expansion. This goal was to no important extent achieved by the end of 1997, indeed, by the first quarter of 1998, a promising expansion in the main components of gross domestic expenditure indicated that the recovery phase might already have begun.

**Stimulus on overall balance of payments**  
A relatively small current account deficit of R8.8 billion in 1997 was more than offset by a net inflow of capital of no less than R20.2 billion. The country's net gold and foreign exchange reserves accordingly increased by R11.4 billion from 31 December 1996 to the end of 1997. The overall balance of payments position continued to improve even further in the first quarter of 1998 when a large net capital inflow of R12.2 billion more than covered a small current account deficit of only R2.9 billion. A further R8.7 billion was therefore added to the country's net gold and foreign exchange reserves. By the end of March 1998, the net gold and foreign exchange reserves held by the Reserve Bank and gross gold and foreign exchange reserves held by the private banking institutions together amounted to R45 billion, or the equivalent of the value of three months' imports of goods and services.

The overall balance of payments surplus created an over-supply of foreign exchange in the market, and called for continuous intervention by the Reserve Bank to prevent an appreciation of the rand. The Bank's net gold and foreign exchange reserves accordingly increased by R12.2 billion over the period of fifteen months. The intervention by

the Bank ensured a relatively stable exchange rate. In nominal terms, the average weighted value of the rand measured against the currencies of South Africa's major trading partners declined on balance by only 3.1 per cent from 31 December 1996 up to 31 March 1998.

**Subdued rate of inflation**  
Last year was the fifth year in succession that inflation in South Africa remained below the 10 per cent level. The average rate of increase in 1997 in the consumer price index was 5.6 per cent, and in production prices 7.1 per cent.

Inflation declined further during the first few months of 1998. Measured over a twelve-month period, consumer price index declined to 5.0 per cent in April 1998, and the all-goods production price inflation to 2.4 per cent in May 1998.

These lower rates of inflation were achieved despite the continuing expansion at relatively high rates in the money supply and in bank credit. The rate of increase in bank credit extended to the private sector being the main source of money creation, likewise remained extremely high. There was some decline from a rate of growth of 17 per cent at the beginning of 1997 to about 14 per cent in the first months of 1998, but even this lower rate of growth did not provide reason for complacency. The high rates of increase in the money supply and in bank credit extension over recent years were at least partly related to the almost explosive increases in the turnover in the major financial markets.

Throughout the period 1997 and the first quarter of 1998, the M3 money supply expanded at an annual rate of about 17 per cent. The rate of increase in bank credit extended to the private sector being the main source of money creation, likewise remained extremely high. There was some decline from a rate of growth of 17 per cent at the beginning of 1997 to about 14 per cent in the first months of 1998, but even this lower rate of growth did not provide reason for complacency. The high rates of increase in the money supply and in bank credit extension over recent years were at least partly related to the almost explosive increases in the turnover in the major financial markets.

Through its intervention in the foreign exchange market in 1997 and the first quarter of 1998 the Reserve Bank itself contributed to an easing of domestic liquidity conditions. Market interest rates consequently tended downwards throughout most of 1997 and during the first four months of 1998. The Reserve Bank gave recognition to the easing in the underlying market conditions and reduced bank rate from 17 to 16 per cent in October 1997, and further to 15 per cent in March 1998 with the introduction of the new, more flexible system of open market transactions in terms of which banks tender for central bank accommodation on a daily basis.

Government continued with its medium-term programme of reducing the deficit on the Budget. During the fiscal year 1997/98 the deficit equalled 4.2 per cent of gross domestic product. The Budget for 1998/99 also provides for a further reduction of the deficit to 3.5 per cent of gross domestic product.

**Major disturbances since May 1998**  
The hopeful signs of an imminent recovery in economic conditions in the first quarter of 1998 were suddenly dashed in May 1998 when the net inflow from abroad of portfolio investment in South African bonds was sharply reversed. After investing R16.3 billion in South African bonds during the first four months of 1998, foreign investors reduced their holdings of bonds by R2.0 billion in May, by R4.0 billion in June and by a further R5.4 billion in July.

Nothing of substance had, however, changed in the fundamental domestic economic situation from April to May 1998. The unexpected

reversal of the inflow of foreign portfolio investment through the Bond Exchange must therefore be linked to a reassessment made at that time by international fund managers of their investment exposure in many countries, particularly in emerging markets.

The accommodation of large outflows of foreign funds that resulted from the disinvestment from the bond market, created a new situation in the South African financial markets that demanded major adjustments. Prices of government bonds declined as yields increased sharply. The decline in the supply of foreign exchange created downward pressure on the external value of the rand; the outflow of funds drained liquidity from the domestic banking sector; and the declining trend in short-term interest rates was reversed and the rate on repurchase transactions moved from 14.75 per cent on 11 May to 20.38 per cent on 19 June 1998.

The adverse developments in the financial markets, triggered by the sharp contraction in the inflow of overall portfolio foreign investment in May 1998, entered a second phase when changed expectations regarding the exchange rate of the rand began to have adverse effects on short-term international capital movements. The common and well-known "leads and lags" in foreign payments and receipts once again moved against South Africa, and switching took place from foreign sources of financing to domestic sources.

Recent turmoil in the financial markets, which has not yet settled down, hold distinct disadvantages for the domestic economic situation. After the disturbances of the past three months, the financial situation can now be summarised as follows:

- The exchange rate of the rand, measured on a trade-weighted basis against a basket of the currencies of South Africa's major trading partners, has depreciated by 21.1 per cent from 31 December 1997 up to 18 August 1998.
- The yield curve has moved distinctly upwards across the whole spectrum of maturities. The prime overdraft rate of banking institutions has risen to 24 per cent, up 5.5 percentage points from the level in April 1998.
- There are early signs of mounting inflationary pressures resulting from the recent depreciation of the rand. Measured over a twelve-month period, the rate of increase in consumer prices, so far measured only marginally from 5.0 per cent in April 1998 to 5.2 per cent in June. Inflation in production prices rose from 2.3 per cent in March 1998 to 2.6 per cent in June.
- These changes in financial conditions have already had a negative impact on real economic activity.
- Growth in real gross domestic product in the second quarter of 1998 slowed down further from the already low level of only 1.5 per cent achieved in the first quarter of 1998.
- Growth in consumer demand in both the private and the public sectors lost some of the momentum experienced in the first quarter.
- Although the deficit on the current account of the balance of payments declined from a seasonally adjusted annualised rate of R0.6 billion in the first quarter of 1998 to R0.5 billion in the second quarter, the overall balance of payments weakened because of a substantial decline in the net capital inflow from R11.2 billion in the first quarter to R4.3 billion in the second quarter.
- Against these negative developments it should be noted, however, that the net capital inflow of R4.3 billion in the second quarter still exceeded the unadjusted current account deficit of R2.1 billion. The net gold and foreign exchange reserves consequently increased by a further R2.2 billion. Additional drawings made by the Reserve Bank and the private banks on foreign credit facilities enabled the consolidated banking sector to increase its total gross foreign reserves by R13.3 billion in the second quarter to reach a total of R36.3 billion at the end of June 1998, that is, to a level sufficient to cover the value of four months' imports.

There are always some advantages in a depreciation of the rand for exporters, and for local manufacturers competing with imports. These benefits will, however, only be durable if the local cost of production in South Africa does not rise quickly in the wake of inevitable price adjustments of imported goods that normally follow a depreciation.

**Implications for monetary policy**  
As in 1996, monetary policy had to introduce quick and decisive changes to address the consequences of the turmoil in the foreign exchange market. With rather rigid fiscal and other macroeconomic policies that cannot easily be adjusted in the short term, the burden of restoring financial stability fell heavily on monetary policy. The already depressed domestic economic situation that is now continuing into 1998 made this task even more difficult.

With the sudden decline in the total inflow of capital since May 1998 and the reduction in the supply of foreign currency, three macroeconomic market adjustments could not be avoided:

- The exchange rate of the rand had to depreciate.
- The domestic banking system had to lose some liquidity.
- Domestic interest rates had to rise to higher levels in response to the capital outflows.

In line with its normal responsibilities, the Reserve Bank intervened in the financial markets to ensure orderly adjustment processes, but never to prevent the above essential changes from taking place. After having absorbed a substantial amount of foreign exchange in 1997 and in the first four months of 1998, when non-residents were pouring large amounts of investments into the country, the Bank was obliged to sell some of these dollars back into the market in May 1998 when many non-residents wanted to take out their money.

As on previous occasions, the Bank also decided to use its forward book once again in order to provide in the increased demand for rand/dollar hedging from South African residents with uncovered positions in foreign exchange, and foreign investors with uncovered rand positions. The relevant alternative which had to be considered was to accept a much larger outflow of capital, more pressure on the exchange rate, and even higher interest rates in South Africa.

In line with its policy of transparency, the Reserve Bank regularly publishes details of its operations in the forward foreign exchange market. It should be noted, however, that an increase in the forward book of the Reserve Bank does not necessarily indicate an increase in South Africa's overall commitment to make foreign payments. It indicates to an important extent only a transfer from the private sector to the Reserve Bank of the exchange rate exposure in respect of existing balance of payments commitments.

In the longer term, the Bank will continue with its policy to reduce its role in both the spot and forward foreign exchange markets. This will, however, require further exchange control relaxations.

The authorities never considered any tightening of exchange control. It remains the view of the Reserve Bank that South Africa should continue with the programme of gradually removing the remaining exchange control restrictions, most of which apply to the outward investment of funds by South African residents.

## Concluding remarks

The turbulence in the East Asian financial markets was transmitted to South Africa as part of a process of a worldwide contagion of economic problems. In the ensuing situation a number of existing structural deficiencies in the South African economy were once again exposed which are easily explicable in an environment of rapidly growing worldwide financial integration. As recent experiences in a number of East Asian countries demonstrated, it is always essential but not necessarily sufficient to apply appropriate disciplined monetary and fiscal policies in the short term. Countries must, however, at the same time also implement what necessary the more painful processes of long-term structural economic adjustment.

As far as the Reserve Bank and the implementation of monetary policy is concerned, cognisance must be taken of the following structural weaknesses:

- Finally, the rate of inflation in South Africa is still too high.
- Secondly, in a world of volatile capital movements and widely fluctuating exchange rates, an asymmetrical exchange rate policy that allows for depreciation from time to time, but never for any appreciation of the rand, can no longer be defended. Like all other policies, the exchange rate of the rand must be allowed at times to decline, and at other times to rise.

Lastly, it is important in this new world of integrated and liberalised financial markets that countries should allow and enable changing underlying market forces to function properly. In order to achieve this objective, it is not only necessary for the central bank to hold more foreign exchange reserves, but also for the private sector to own more liquid foreign assets. Only then will the premature pressure on the Reserve Bank to reduce its role in the spot and forward foreign exchange markets make sense.

It is understandable for South Africans to continuously exert pressure on the central bank to provide more money at lower interest rates. It is, however, not part of the privilege of central bankers to seek popularity by creating more money, especially not in a country with a relatively high rate of inflation. In the world of integrated financial markets, any individual country can, of course, choose the monetary policies it prefers. Global market forces will, however, ensure that each country keeps the economic results that its policies deserve.

In this highly competitive environment the South African Reserve Bank cannot afford to relax its vigil against inflation. It remains the task of the Bank, in adverse and unfavourable circumstances, to continue with a policy that will preserve overall financial stability. This is, after all, the contribution that central bankers must make in all countries towards achieving the overriding objective of sustainable higher economic growth and more job creation. Strict adherence to a monetary policy model based on changes in the more important financial aggregates provides the best strategy for the achievement of this objective.

GRAPHICOR FINANCIAL 1998



## COMPANIES &amp; FINANCE: RUSSIAN FALL-OUT

BONDS PARENT TAKES UNUSUAL STEP OF ISSUING INTERIM RESULTS EARLY IN ATTEMPT TO QUASH SPECULATION

## CSFB's estimated loss put at \$500m

By William Hall in Zurich

Credit Suisse First Boston, one of the biggest primary dealers in the Russian government bond market, is believed to have lost close to \$500m as a result of the recent turmoil in Russia's financial markets and the associated sell-off in other emerging markets.

Credit Suisse, CSFB's parent, took the unusual step yesterday of issuing the first-half profit figures for CSFB, a fortnight ahead of schedule, in a bid to quell speculation that it had been particularly hard hit by the latest setback in one of its most profitable and fastest growing markets.

There had been speculation CSFB had lost between \$1bn and \$2bn from its exposure to Russia. Richard Thornburgh, Credit Suisse chief financial officer, called

these estimates "complete nonsense" and said that the decision to release CSFB's results early was to help the market quantify the impact on CSFB.

CSFB increased first-half net profit, before minority interests, by 24 per cent to Sfr1.1bn (\$731m). Credit Suisse said that "since this date, market difficulties globally, but notably in Russia, where CSFB has significant activities, have reduced this performance to an estimated year-to-date unaudited net profit (pre-minority interests) of approximately \$500m (Sfr752m) at the close of business on August 25".

The estimated result reflects a market adjustment to the carrying value of CSFB's exposure to the Russian market, based on the government's restructuring announcement. Mr Thornburgh declined to speculate

on the size of the losses and said the group would give further information on its Russian activities on September 9 when it published its first-half results.

However, John Leonard of

Hans Kaufmann, of Bank Julius Baer, said the losses on current evidence were "easily manageable" given that Credit Suisse Group was expected to earn close to Sfr4bn this year.

## Estimated result reflects a market adjustment to carrying value of exposure to Russian market based on the government's restructuring

Salomon Brothers in London, said the combination of the \$254m fall in CSFB's profits between the end of June 1998 and August 25, combined with an estimated normal monthly profit of around \$100m for CSFB, meant it was relatively easy to estimate that CSFB could have lost between \$300m and \$400m.

CSFB's first-half results, before the latest setback, were much better than those of Warburg Dillon Read, UBS's investment banking division, which this week reported net profits of Sfr622m for the period. Warburg Dillon Read, which has 12 per cent more equity than CSFB's Sfr11.9bn, earned 11.9 per

cent on its equity in the first half of 1998, compared with the 21 per cent earned by CSFB before the latest setback.

However, the latest news from CSFB will increase concerns that it has been taking more risks than some of its rivals.

In 1997 CSFB's assets in eastern Europe and the Commonwealth of Independent States rose from Sfr1.1bn to Sfr12.9bn. Mr Thornburgh said these figures vastly overstated CSFB's real exposure since they included non-Russian securities and did not take into account any collateral or hedges through structured off-balance sheet transactions. He estimated the real exposure was more like Sfr1.7bn.

Analysts were unsurprised that CSFB's exposure is much higher than at UBS, which has estimated that its

HEDGE FUNDS YEAR'S GAINS OBLITERATED

## Crisis could bring about many failures

By Jane Martinson in London and William Lewis in New York

A senior manager at an investment fund dedicated to Russia said yesterday: "In a year's time we're going to be one of only a few survivors." But he refused to be named, so unsure was he of his own prophecy.

Hedge funds with large exposures to the Russian market have seen huge gains made last year completely obliterated in the past week. Many funds look as though they may not survive into the New Year.

Nicola Meaden, a director at Tass, the hedge fund research group, said: "We are going to see a lot of hedge funds closing down completely."

George Soros's group of investment funds said yesterday it had lost up to \$2bn because of the Russian crisis, among the largest losses ever suffered by a hedge fund group.

Among those hardest hit appeared to be hedge funds which had leveraged their investments in GKOs, short-term Russian Treasury bills.

High Risk Opportunities Fund, a \$450m US-based hedge fund with substantial Russian holdings, was yesterday said to be in negotiations with financial groups regarding the realisation of investment gains and losses.

One equity fund manager said: "The key to doing things properly in Russia is not to take ridiculous risks. To use leverage was ridiculous in a market like this."

Fund managers said a traditional hedging technique, of "shorting" the market and therefore benefiting from declines, is difficult in Russia because of a lack of suitable financial instruments.

Equity specialist funds have suffered. Hermitage, one of the largest Russian

specialist funds, managed about \$350m at the beginning of this week, down from a high of \$1bn last October.

The main Hermitage fund returned 234 per cent last year and fell 60 per cent in the first six months of this year, according to Tass.

Data from Morningstar, the Chicago-based consultancy, revealed that Lexington Troika Dialog, which has 80 per cent of its assets in Russian securities, is 79 per cent down in the year to date.

Brunswick Capital Management, another specialist in Russian equity investing, now manages about \$150m in Russia, down from \$300m last year.

Florian Fenner, a senior fund manager, said the group had suffered less than others because of a very limited exposure to companies backed by GKOs.

"It's been a rollercoaster ride but we are alive and kicking and we'll not be making margin calls."

The group's two main funds - Russia growth and its emerging markets trust - have fallen 73 per cent and 60 per cent since the beginning of the year respectively. The main Russia equity index has lost 78 per cent during the same period.

Mark Mobius, head of emerging market investment at Franklin Templeton, one of the world's largest emerging market investment funds, was highly critical yesterday of the Russian authorities. His \$70m Templeton Russian fund is 70 per cent invested in Russian equities.

Arnar Banerji, chief investment officer of Foreign & Colonial Emerging Markets, played down the impact on large US and UK institutional investors.

German investors, however, were understood to have suffered from a relatively higher weighting in Russia.

CAR INDUSTRY FIAT, RENAULT, FORD HOLD OUT PROMISE

## Carmakers reaffirm long-term commitment

By Paul Betts in Milan and Hag Simonian in London

Leading carmakers planning to invest heavily in Russia used the opening of the Moscow motor show yesterday to reaffirm their long-term commitment to developing the country's motor industry.

But strong signs have emerged that some manufacturers have become much more cautious in the short term at a time of increasing concern and uncertainty over big projects in Russia.

Roberto Testore, chief executive of Fiat Auto, confirmed the Italian group would proceed with its \$800m joint venture to build up to 150,000 cars a year in Russia, in spite of the current financial turmoil.

Mr Testore, who heads the Fiat group's main car division, said he remained "optimistic" over the future of

the Russian economy and believed the car market would continue to expand.

He said Fiat viewed its Russian joint venture not as a "bet", but as a medium-term investment. "For the Russians, cars are shelter goods during difficult economic times and the market still has significant room to grow."

By contrast, Ford's plan to build cars and vans with Rusky Dizel near St Petersburg appear to have slowed.

A Ford official said negotiations were continuing and the project remained alive, but the US group had still not finalised a formal business plan with its local partners.

Renault, which announced its own project to build cars in Russia in November 1997, one month after Fiat, said it remained committed to its joint venture.

The French company crossed an important thresh-

old last month when it agreed with the City of Moscow, its joint venture partner, to set up OAO Avtofrance, a new manufacturing company. The city of Moscow controls Moskvich, the troubled carmaker based in the capital. The joint venture will build cars at the Moskvich site.

Renault and the city authorities will invest \$420m in the project, which aims to build 120,000 cars a year when fully operational.

However, a Renault official stressed no money had yet been disbursed. The agreement calls for Renault to pay a first \$10m tranche in cash before the end of the year, to be matched by a similar contribution by the city authorities in the form of buildings and assets.

Fiat's joint venture agreement with the Russian car manufacturer Gaz was signed during President Boris Yeltsin's visit to Rome

in February. The agreement involves the creation of a new company, Nizhegorod Motors, to produce a range of saloons and estate cars.

Under the original plans, production is due to start this year with the first 2,000 cars and annual output eventually rising to 150,000 cars.



Economic woes: queues are set to become longer as crisis deepens

bank for Reconstruction and Development backing the operation with a 20 per cent stake.

General Motors and Lada, the debt-ridden Russian carmaker, are considering a joint venture to build a car specifically for the Russian market, writes John Griffiths.

David Herman, chief executive of GM Russia and a former head of Opel, con-

firmed yesterday at the Moscow motor show that talks were under way.

He said the venture, if finalised, would build at least 100,000 units a year of a car developed jointly with Lada at its Autovaz plant at Togliatti, on the banks of the Volga. The car would have to sell at under \$10,000 if it were to be successful in the depressed Russian market, he said.

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**Commonwealth Bank Australia**  
Commonwealth Bank of Australia  
A.C.N. 123 123 124  
Incorporated in Australia with limited liability

**U.S. \$7,000,000**  
Undated Floating Rate Notes  
exchangeable into Dated Floating Rate Notes  
and  
**U.S. \$217,000,000**  
Floating Rate Dated Notes due February 1999  
exchangeable into Undated Floating Rate Notes  
and  
**U.S. \$176,000,000**  
Floating Rate Dated Notes due February 2000  
exchangeable into Undated Floating Rate Notes

Interest Rate	5.7475% per annum (LIBOR 5.8875% + 0.06%)
Dated Notes	5.625% per annum (LINEAN 5.625%)
Interest Period	27th August 1998 to but excluding 26th February 1999
Interest Amount due	
Undated Notes	
per U.S. \$ 10,000 Note	U.S. \$ 292.16
per U.S. \$250,000 Note	U.S. \$7,304.11
Dated Notes	
per U.S. \$ 10,000 Note	U.S. \$ 285.94
per U.S. \$250,000 Note	U.S. \$7,148.44

**Credit Suisse First Boston (Europe) Ltd.**  
Agent

**Interim dividend**

**BW** Koninklijke Buitenvaart NV

The undersigned announces that the Executive Board of Koninklijke Buitenvaart NV, with the approval of the Supervisory Board, has decided to distribute an interim dividend for the 1998 financial year of NLG in cash per ordinary share of NLG 2.00.

On submission of dividend coupon no. 16 of the depositary receipts for ordinary shares, NLG will be payable as from September 9, 1998 per depositary receipt for one ordinary share of NLG 2.00, less 25% dividend tax, at the offices of ABN AMRO Bank N.V., MeesPijper N.V., ING Bank N.V. and Kampen & Co N.V., in Amsterdam, the Netherlands. Holders of CF depositary receipts will receive their dividend through the institutions at which the dividend sheets of their depositary receipts were deposited at the close of business on August 27, 1998. Copies of the interim statement can be obtained from the company (P.O. Box 410, NL-1180 AK Amstelveen).

Sachting Administratiekantoor  
Amstelveen, August 26, 1998

## COMPANIES &amp; FINANCE: THE AMERICAS

MINING EQUIPMENT JOB CUTS ANNOUNCED AFTER US GROUP SLIDES TO THIRD-QUARTER LOSS

## Harnischfeger cuts workforce by further 16%

By Nikki Tait in Minneapolis

Harnischfeger Industries, the US supplier of equipment used in the mining and papermaking industries, is announcing a further 2,500 jobs - or about 16 per cent of its workforce - in an effort to cut costs and put its business back on track.

Yesterday's announcement came as the Milwaukee-

based group fell into the red in the third quarter, announcing a higher-than-expected \$38.6m loss and prompting its shares to dive \$4 to \$16 1/2 in early trading.

The latest job losses follow 750 redundancies at its Beloit papermaking business. The cutting of 3,100 jobs reduces Harnischfeger's payroll by one-fifth since the start of its 1997-8 financial year and is

expected to bring savings of about \$110m.

The company said about 85 per cent of the redundancies should take effect by the end of 1998 and that it did not envisage any additional restructuring charges.

Harnischfeger warned two months ago that it would fall into the red in the third quarter, which ended on July 31.

Yesterday, Jeffrey Grade,

chief executive, said the poor figures reflected "ongoing weakness" and that the job cuts were part of a plan to "aggressively reduce Harnischfeger's rate of spending and align expenses with the current low sales levels".

Sales on the mining side were \$339m, against \$328m last time, but operating profits tumbled from \$44.3m a year ago to \$16.3m.

The paper-making equip-

ment business saw a sharper decline, as sales fell from \$375m to \$164m year-on-year, while the operating result swung from a \$28m profit to a \$65.3m loss. There was a loss per share of 83 cents, compared with earnings of 63 cents a year ago.

The company has also seen the Texas-based Bass family, known for its aggressive approach to investments, raise its stake in the business.

In the first half, the company saw falling demand

and was hit by charges related to the Indonesian turmoil. Restructuring costs led to a \$97.8m loss from continuing operations, ahead of gain from asset sales.

The company has also seen the Texas-based Bass family, known for its aggressive approach to investments, raise its stake in the business.

## New York Times is still spreading the news

Consistency is the secret of success, writes John Gapper

In Times Square, the formerly run-down area of Manhattan now filled with the headquarters of media companies and investment banks, there are few signs of economic depression. But the bad days are still remembered at the New York Times.

"New York is a boom-bust city," says Arthur Sulzberger Jr., the latest member of the Sulzberger family to take the helm of the New York Times Company. He stepped into his father's shoes as chairman last October at a propitious time in the cycle.

Despite falling circulation in the metropolis, the company has emerged well from the recession of the early 1990s. It now produces a six-section colour daily newspaper from two new plants in New Jersey and Queens.

It decided to invest \$1bn in new facilities under a 10-year plan drawn up in 1987. Just as significantly, the company had until recently managed to avoid the prevailing mood of scepticism about family-run media companies. While others such as Dow Jones have been through crises of confidence, it largely prospered.

Under 46-year-old Mr Sulzberger, and Russ Lewis, its chief executive, it has a renewed focus on newspapers, pruning 1990s diversifications such as an invest-

ment in a Florida golf resort and a cable TV network.

Until last month, investors had responded enthusiastically. Although its A shares underperformed the S&P 500 by 61 per cent between 1987 and the start of last year, they recovered as gains from the 10-year plan appeared.

The shares beat the S&P by 34 per cent between the start of last year and mid-July, rising from \$19 to \$40.50 as the Times expanded its north-east edition, and focused more effort on selling its national edition.

Buoyant advertising demand coincided with a growth in the newspaper's capacity. "There were some tough years, but I think analysts now grant that it was rather a wise thing to do, which paid off

handsomely," says Mr Lewis.

The shine was somewhat taken off this performance by the company's second-quarter results, which showed a slowing of advertising growth. The shares promptly gave up all their gains this year, falling to \$30 1/2 yesterday.

Yet the Times shows no sign of abandoning its efforts to build a strong business around its flagship publication. Mr Lewis says it has gained from a number of years of consistency when other groups changed tack.

The controlling stake of the Ochs-Sulzbergers has helped, he says. "Part of the reason we were able to stay the course is family ownership helps us have constancy of purpose, not pay attention to every cry or quibble."

The strategy for the New York Times remains unflinching, despite circulation in the metropolitan area having "ebbed and flowed" as Mr Lewis puts it, with a mobile population in the past five years.

It has eschewed discounting to boost circulation, and the 60 cent price has led some New Yorkers to seek alternatives. But Mr Lewis insists: "If you give readers a quality product they are prepared to pay for it." Mr Sulzberger says its problems are common to



Times Square: formerly called Longacre Square but renamed after the paper's Times Tower

metropolitan newspapers across the US, and it wants to "build a sustained, loyal readership without having to layer offer on offer, so you never get out of the cycle of dependency".

The New York Times has an advantage over other metropolitan papers in being able to sell nationally. It now makes 431,000 of its 1.1m daily sales outside the New York market, and 50 per cent of advertising revenue is national.

Yet expanding the newspaper will not absorb the company's considerable free cash flow. The question of where to invest its cash has been occupying the company and Lazard Freres, its investment bank, for a year.

Given the history of US newspaper groups such as Knight-Ridder and Dow Jones, which diversified into financial and business information only to divest them, there is no easy solution. One New York investment

banker says that purchases of other metropolitan papers such as the Boston Globe, which the New York Times acquired in 1993, are the only obvious targets. However, these rarely come on the market.

Newspaper groups whose main guiding principle is to protect their flagship papers are unlikely to bid aggressively against networks to buy television stations, or European companies such as Reed Elsevier for information groups.

The New York Times owns eight television stations and two radio stations, and Mr Lewis says it could expand more in broadcasting. However, he says it is still pondering its "larger inclinations" for acquisitions.

"When we do an acquisition in future of some size, we would like the reaction from shareholders and analysts and customers to be: 'Aha, that makes sense, and one and one will make three

in this case," he says. It is seeking "a certain amount of diversification" but not too much, he says. "We are interested in growth, but not in taking inordinate risks. We have a good core business and there is no need to bet the farm on a new strategy."

**VIRIDIAN GROUP PLC**  
£150,000,000

Unsecured Loan Notes due 2003 of 47.4p each

For the six months from 14th August 1998 to 14th February 1999 inclusive the Bonds will carry an interest rate of 7.88047% per annum.

The interest amount payable per Bond will be £0.01893 on 15th February 1999.

AGENT BANK  
**BARCLAYS**



## COMPANIES &amp; FINANCE: UK

MINING SHAREHOLDER DISCONTENT ABOUT VALUE OF INGWE DEAL MAY JEOPARDISE TAKEOVER

## Billiton runs into final dividend difficulty

By Kenneth Gooding

Billiton, the mining group under pressure as the worst performer in the FTSE 100 index in the past year, has run into difficulties over its £2.97bn (£460m) offer to gain full control of Ingwe of South Africa.

Some shareholders in Ingwe, the world's biggest thermal coal exporter, are unhappy about the company's decision not to pay a final dividend for the year to June 30.

They had been expecting a

dividend of between 80 cents and R1 to add to the R25 a share being offered by Billiton, according to John Loewen, director of mining research at Deutsche Morgan Grenfell in Johannesburg. This would have made what seemed to some analysts a modest price for Ingwe more attractive.

Two of Ingwe's big shareholders, Old Mutual and Sanlam, were sounded out before the offer was made. At the time of the formal bid both those institutions said they would accept R25 and

are honour-bound to vote in favour of a scheme of arrangement at a meeting on September 14. However, a third shareholder, Liberty Life, remains uncommitted and its votes are vital. At least 75 per cent of minority shareholders must vote in favour of the scheme and Liberty Life accounts for roughly 20 per cent of these votes.

Mr Loewen pointed out that, although Billiton's offer in July was 50 per cent above the Ingwe price at the time, Ingwe shares were

then trading at an all time low. He calculated the Ingwe minorities' interests were worth R30 a share. He said a fairer outcome would be for Billiton to allow Ingwe to add dividends of R1 or R2 to the R25 offer price.

He conceded, however, that the Ingwe price was likely to fall to R15-R17 should the offer be rejected because share prices in South Africa had dropped by nearly 15 per cent recently.

Albert Minassian, analyst at HSBC Simpson McKie, who also originally valued

Ingwe at R30, said: "Since the market's fall, R25 looks generous. People have no problem with that. But some are annoyed about not getting the R1 dividend from Ingwe they expected."

Analysts stressed no one was accusing Billiton of

impropriety, rather an error of omission. Even this could be excused because Billiton originally expected the deal to be completed earlier and the issue of Ingwe's dividend would then not have arisen.

Marc Gonsalves, Billiton's senior manager, corporate

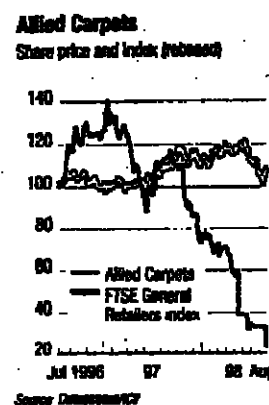
affairs, insisted: "In Billiton's view it was always clear the offer was cum dividend. An independent sub-committee of the Ingwe board, as well as Rand Merchant Bank, the independent adviser, concluded the offer was fair and reasonable."

Billiton's management is already under pressure from disillusioned London institutions that helped to contribute nearly £1bn just over a year ago when Billiton raised cash and was listed on the London Stock Exchange.

## COMMENT

## Allied Carpets

Rotten apple or rotten culture? It is difficult to tell what caused Allied Carpets' accounting mishap. The bad news for shareholders, who saw their shares fall 29 per cent yesterday, is that it is not the worst of their problems. The trading outlook is none too bright either - and not susceptible to quick solutions. Rents on out-of-town sites are shooting up, consumer spirits are flagging and efficiency ratios are too low. The upshot is that 1998-99 profits are likely to be in the £10m-£15m range; a year ago the forecast for 1997-98 was £15m-£20m. The company's response - fewer store openings and building returns through a changed product mix - makes sense. But with the market difficult and management credibility badly damaged, there is no hurry to buy the shares - cheap though they are.



## Debts of £120m put Yardley in receivership

By David Blackwell

Yardley, the quintessentially English cosmetics company that supplies the Queen Mother with perfume, was put in the hands of receivers yesterday.

Founded in 1770 in London, the company is most famous for the English Lavender brand that is still its best seller throughout the world. In spite of associations with Twigg in the 1980s, and more recently, with actress Helena Bonham Carter, it has always had a rather old-fashioned image.

A relaunch of the cosmetics range last year featured Linda Evangelista, the Canadian supermodel, in hand-cuffs, and was aimed at attracting a more modern, international clientele. But the move failed to stem mounting losses on flat sales.

The last reported figures for Old Bond Street Holding Company, Yardley's owner, show pre-tax losses of £9.2m on sales of £68m in 1996, up from losses of £2m previously.

They Thompson of KPMG, the receivers, said yesterday that the company's debts stood at about £120m (£180m). "It was saddled with a massive debt burden that it simply could not service,"

But he was confident that

a buyer could quickly be found for a brand with such a long and illustrious history. "There is an enormous amount of goodwill, and we are very keen that this does not slip away."

Mr Thompson believed there were between 20 and 30 international companies where Yardley would be a good fit.

"We expect to be speaking to the ultimate purchaser in the next three weeks," he said, but warned that he could not tell how long it might take to strike a final deal.

Yardley's ultimate owner is Wasserstein Perella Management Partners, the US investment bank. In 1990, Old Bond Street, in which Wasserstein Perella has an 88.5 per cent stake, bought Yardley from SmithKline Beecham for £110m.

At the time, Yardley had two factories and employed 1,600. Last March the company, which now has just 300 employees, said it would be closing the remaining factory in Basildon, Essex, and would be outsourcing its production in order to concentrate on the brand and distribution.

Mr Thompson said that the cosmetics industry was increasingly becoming an international business, and Yardley had had its hands tied by financial constraints.

## Allied shares fall 30% on return

By Robert Wright

Shares in Allied Carpets, the carpet and furniture retailer, fell nearly 30 per cent to 53p yesterday as they were returned to trading after a six week suspension over accounting irregularities.

The return came as Allied announced its full-year results and the outcome of its inquiry into allegations that sales were systematically recognised too early by stores towards the end of accounting periods. The allegations led to the resignation of Steven Barber, Allied's senior operations manager, and David Pout, finance director, last week.

Allied said Mr Barber directed stores to recognise sales in the run up to its financial year-end before car-

pets were delivered to customers. The goods had been fully paid for in nearly all cases and most would have been fitted shortly after the year-end.

Julian Lee, chairman, said the company had decided, after legal advice, to pay Mr Barber £158,000 (£268,000) to prevent him from working for competitors for a year.

Mr Pout, who the inquiry discovered knew nothing about the irregularities, will receive £221,000.

There was concern among some analysts because the practice had continued for five years undetected by the company's board, its auditor, Arthur Andersen, and by advisers at the time of the company's flotation two years ago. Julian Lee, chairman, said the company

would now review its list of advisers.

In its results for the year to June 27, issued yesterday, Allied took a £3m provision for losses as a result of the early recognition. Some £2.1m of this was a provision for early recognition of sales up to June 27, while sales were reduced by £6.4m to £28.4m after eliminating the effects of early recognition.

The company also spent £248,000 on the inquiry, £175,000 on work relating to the restituting of the shares and provided £377,000 for the costs of the two resignations and other management changes.

After the exceptional item, pre-tax profits were £11.2m, against £16.7m on £268m turnover last year.



Ray Nethercott, managing director

## Panel to end 'creeper' provision

By Jane Marlinson

The Takeover Panel is to abolish the so-called creeper provision in a move that will force shareholders to bid for a company if they want to increase their stake above 30 per cent.

Under existing Takeover Code rules shareholders with stakes between 30 per cent and 50 per cent are allowed to increase their stake in a company by 1 per cent a year. This provision was designed to allow flexibility but it also enables shareholders to continue to increase their stake until they gain control without

paying a premium. Allister Defriez, director-general of the panel, said: "The provision was not intended to allow shareholders to creep to statutory control without making a bid."

From today shareholders will not be allowed to increase their stake if they hold more than 30 per cent without the panel's permission.

Complaints about the creeper provision arose after Emerson Electric's controversial takeover for Astec, the electronic power supply group. The US group started with a large stake in its target and achieved control by

buying up to 1 per cent a year. Astec's minority shareholders failed this year in their unprecedented High Court challenge to the takeover.

Shareholders normally have to launch a bid when they acquire more than 29.9 per cent of a quoted company, but there are exceptions that allow them to own up to 49.9 per cent with the consent of other shareholders.

Mr Defriez said the decision to remove the creeper provision had been "sparked off by investors who felt it was appropriate to remedy this anomaly".

The Association of British Insurers, which represents institutional investors, supported the decision earlier this year to review the provision.

Mr Defriez offered some flexibility to investment trusts, which have been the main supporters of the provision. Because several trusts can be linked to the same fund manager, they can fall foul of the definition of a "concert party" and therefore be unable to increase their stake in a company beyond 30 per cent. Mr Defriez said the panel would take individual circumstances into account.

## NEWS DIGEST

## INVESTMENT TRUSTS

## Russian malaise knocks emerging market sector

Emerging market investment trusts fell sharply yesterday, as negative sentiment towards developing country funds was intensified by political turmoil in Russia. Funds with high exposure to Russia and Latin America were hit heavily. Foreign & Colonial's Emerging Markets fund fell 54p to 46p, while Murray Emerging Economies lost 34p to 324p. Among the larger funds, Templeton Emerging Markets closed off 6p at 714p.

F&C Emerging Markets, which is 64 per cent lower than its year-to-date high of 1284p last October, was hit by its high exposure to Russia. At the end of July, the trust had 15 per cent of its assets allocated to Russian shares. Amab Banerji, chief investment officer, said exposure to Russian shares and debt had been reduced, with 75 per cent of investments in treasury bill written off last week.

The average discount of the price to net asset value of emerging market funds has widened over the past three weeks from about 20 to 28 per cent, as investors have become increasingly risk-averse.

Fundamental Data, a database analysis group, said the average price of 23 global emerging funds fell 5 per cent, while the net asset value declined 1.5 per cent. Russia's devaluation of the rouble weighed on sentiment, which worsened with the cabinet sacking. Analysts said the debt restructuring details were the last straw. Emiko Terazono

## ENGINEERING

## Berisford buys Aladdin Temp-Rite

Berisford, the kitchens and kitchen equipment group, has bought Aladdin Temp-Rite, the institutional catering supply division of Aladdin Industries of the US, for £41m (£68m) cash. The acquisition continues Berisford's strategy of expanding its food services operations. Weltbit, its commercial kitchen equipment business, accounts for about 75 per cent of profits on 58 per cent of sales, with the balance made up by Magret, its consumer kitchens and joinery business. Jonathan Fidler, finance director, said the acquisition bolstered Berisford's position as a supplier of kitchens to institutions. Aladdin Temp-Rite makes supporting equipment such as insulated trays and food re-heaters. It made a pre-tax profit before interest of £7.3m last year on sales of \$84m.

Berisford also announced the £8.7m acquisition of Viscount Catering, a privately-owned manufacturer of commercial ranges, fryers and refrigeration equipment. Viscount made pre-tax profits before interest of £1.2m last year on turnover of £12.4m.

Mr Fidler said the company could make about £200m available for acquisitions allowing it to almost double its \$550m annual sales of food services equipment. Michael Peel

## INSURANCE

## KKR clarifies Willis bid terms

Kohlberg Kravis Roberts, the US buy-out specialist, said yesterday it reserved the right to make its £951m (£1.57bn) bid for Willis Corroon, the insurance broker, unconditional in the next five days, with a lower acceptance limit of 50 per cent rather than 90 per cent. The move came amid continuing speculation of a counter-bid for Willis, following the agreed £1.25bn offer for Sedgwick by Marsh & McLennan on Tuesday. Aon, Marsh's main rival, is considered most likely to make a move. KKR has received acceptance for 64 per cent of Willis shares. Christopher Brown-Humes

## MEDIA

## Regulator looks at Pearson buy

The Director General of Fair Trading is inviting comment by September 10 on whether the proposed acquisition by Pearson, owner of the Financial Times, of Simon & Schuster, the education, business and professional and reference publishing divisions of the US media group Viacom, qualifies for investigation.

## Fitness firms speed ahead but some may have to peak

Scheherazade Daneshkhu tracks the growth in this leisure sector and assesses companies' staying power for the European course

The £1bn (£165m) fitness industry has expanded rapidly in recent years on a diet of unfulfilled demand and healthy returns of more than 20 per cent.

Like most converts to an exercise regime, once bitten, few companies find they can let the bug go. Despite ambitious expansion programmes in the UK, many are now stretching their interest to Europe.

Vardon is a case in point. Two years ago it entered the market with the acquisition of Archer Leisure. By the end of last year it wanted to devote itself solely to health and fitness; last week it implemented the final step in that strategy by putting its Sea Life and London Dungeon attractions up for sale.

Now the second largest operator to terms of membership - after Whitbread's David Lloyd, it has already sold its tingo and holiday interests to invest in health and fitness.

After buying Cannons Sports and Leisure in June for £25.4m, it spent a further £22.4m last week on the Harbour Club. The purchase of London's most expensive membership club enabled it to also acquire the development expertise of the club's former co-owner, Peter Beckwith, the property entrepreneur, who is to help Vardon find sites in Europe with which to roll out Harbour clubs.



ket to be in. All the clubs are achieving their financial targets which gives us the confidence to invest more," says Steve Philpott, managing director of David Lloyd Leisure.

Granada, which operates 50 health clubs, says it believes the industry will take much longer than the widely predicted 5-10 years

to reach maturity. "It's a very buoyant market and I don't see any sign of it slowing down," said Alan MacGregor, managing director of Granada Health and Fitness, which has currently ruled out investment in Europe.

That buoyancy is reflected in a healthy degree of corporate activity. Four fitness companies have come to the

market within the past two years - Dragons Health Clubs, Fitness First and Lady in Leisure listed on Aim, while Holmes Place floated on the main market.

Pinnacle Leisure, which operates 10 clubs, is to float later this year in a placing expected to value the group at £70m.

In the US, 10 per cent of the adult population is a member of a health club compared with 5.5 per cent in the UK, according to Greig Middleton, the stockbroker.

Health and fitness operators in the UK have earned more than £750m for investment in the sector over the next three years but Greig Middleton estimates that £2bn of investment is needed to meet current membership needs.

There are signs of nervousness in the market although talk of recession is brushed off by most operators who argue that the industry is recession-proof.

Bruce Jones, leisure ana-

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year				
Allied Carpets	Yr to June 27	284.1	(253.7)	11.24	(18.7)	8.5	(12.7)	5	Nov 10	5	7.75	7.5
Armitage	6 mths to July 31	42.8	(37.9)	2.88	(2.82)	11.1	(14.7)	4.5	Dec 17	4	-	13
ATA	6 mths to July 31	3.4	(2.04)	0.547	(0.332)	8.25	(8.36)	2	Sept 15	-	-	-
Cathedral Rugby	6 mths to June 30	8.88	(8.87)	0.347	(0.322)	5.1	(5)	1.4	Oct 16	1.35	-	-
Donmick Hunter	6 mths to June 30	36.3	(51.2)	4.72	(4.61)	0.27	(0.47)	3.4	Oct 18	3.168	-	-
J&A	6 mths to June 30	126.1	(60.1)	4.48	(2.58)	1.25	(2.58)	1.25	Jun 8	1.25	-	5.1
Mellott	6 mths to June 30	10.8	(7.01)	3.27	(1.18)	16.36	(5.84)	1.5	Oct 16	1.3	-	4.4
Perity	6 mths to June 30	30.9	(61.7)	11.4	(1.88)	3.61	(5.8)	0.75	Nov 25	0.75	1.5	1.5
Millinery	6 mths to June 30	135	(60.8)	8.75	(5.88)	11.91	(8.9)	2.4	Nov 11	1.8	-	-
Pearity	6 mths to June 30	7.41	(6.57)	0.632	(0.61)	5.91	(12.8)	2.5	Oct 23	2.5	7.5	7.5
Pegasus	6 mths to June 30	26.3	(51.6)	11.54	(2.18)	11.88	(2.18)	11	Oct 23	11	0.25	0.25
Rosson	Yr to Dec 31	10.4	(13.4)	3.35	(2.27)	3.74	(8.88)	11	Oct 23	11	0.25	0.25
Rosson	6 mths to July 4	10.4	(13.4)	3.35	(2.27)	3.74	(8.88)	11	Oct 23	11	0.25	0.25
Investment Trusts	NAW (p)		Attributable Shareings (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year			
Anglet	Yr to June 30	182.63	(142.01)	0.49	(0.628)	1.37	(2.88)	1.5	Oct 30	1.5	1.5	1.5
As	Yr to July 31	491.34	(242.51)	0.926	(0.887)	1.47	(13.78)	4.95	Oct 13	4.55	14.7	14.7

Figures shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*After exceptional charge. \*After exceptional credit. £ Irish currency. £10n = 100p.

Investment Trusts

	NAV (£m)	Attributable (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividend cover (times)	Total for year	Total last year	
Bright	182.83	(142.01)	0.49	(0.228)	1.71	(2.28)	1.5	Oct 30	1.5
Jan	431.34	(324.5)	0.928	(0.887)	14.37	(18.73)	4.95	Oct 18	4.55

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. British currency. 10p increase capital. After stock. Comparative restated.







## EURO PRICES

## EQUITIES

## Europe goes into reverse gear

## EUROPEAN OVERVIEW

by Philip Coggan, Markets Editor

European stock markets reversed course once again yesterday, giving up Tuesday's gains, as the shock waves from Russia's debt restructuring rippled across the continent.

Investors regarded the terms of the restructuring, which will lock creditors in to rouble-denominated debt, as highly unfavourable and they were also worried by talk the Russians might default on some of their other debt. The rouble

dropped 40 per cent against the D-Mark and the Moscow stock market plunged 13 per cent.

Traders were particularly savage on the banking stocks, particularly after CS Group issued a profit warning about its investment banking subsidiary, CSFB.

The retail banking sector was one of the worst performers of the day, falling 3.2 per cent. CS Group fell

broader Eurotop 300 index dropped 26.94 to 1,163.36. Once again, the FTSE Ebioc 100 index, which comprises stocks in the core countries, moved rather differently from the other two benchmarks, it underperformed, falling 20.5, or 2.3 per cent, to 594.11.

Only one sector was up on the day, property, largely because the all-UK sector was carried higher in Ecu terms by sterling's strength.

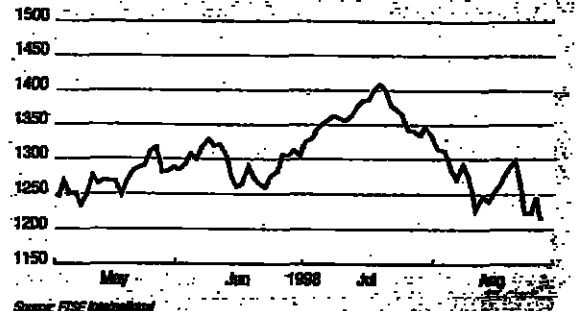
As well as banks, automobiles, alcoholic beverages, information technology and other financial all fell by more than 3 per cent on the

day. The UK merchant bank Schroders slumped Ecu 1.4 or 6 per cent to Ecu 21.63. Poor corporate earnings news also claimed some casualties. Philips fell Ecu 3.5 to Ecu 64.54 after revealing that its mobile telephone unit would make a loss this year. The electronics sector slipped 2.4 per cent.

Among the retailers, Metro fell Ecu 3 to Ecu 47.4 after it revealed heightened losses at its department store operation. But retailing suffered only a 1.3 per cent decline, part of a trend where the defensive sectors of consumer goods and utilities outperformed the market.

## FTSE EUROTOP 300

Index



Source: FTSE International

THREE MONTHLY EURO FUTURES (LFF) Expiry point of 100%									
Open	Sett	Change	High	Low	Est. vol	Open int	Open int	Open int	Open int
Oct	96.240	-0.010	96.250	96.240	0	0	0	0	0
Nov	96.240	-0.010	96.250	96.240	415	7950			
Dec	96.240	-0.010	96.250	96.240	0	4747			
Jan	96.240	-0.010	96.250	96.240	28	1982			

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Open	94.80	-0.4	3.2	+ 2.3	95	1.30	-	5.8	2.9	-
Sett	94.80	-0.3	2.8	+ 0.4	Cornish					
					Red Island	93.71	-0.7	6.1	6.2	6.5

CONSTRUCTION						HEALTH CARE				
Open	97.00	-0.5	4.9	+ 1.5	Myriad Acor	9.85	-0.1	3.5	1.3	1.4
Sett	97.00	-0.7	4.0	0.1	3.2					











## COMMODITIES &amp; AGRICULTURE

## Norway plans further cuts in oil investment

By Valeria Skold in Stavanger

Norway, the world's second-largest oil exporter, is preparing to slow still further investment in offshore oil, having already postponed 12 field developments earlier this year.

Marit Arnstad, energy minister, yesterday announced that Norway will tackle the trend toward increased costs in several oil and gas projects in its petroleum sector by appointing an evaluation committee.

The government will invest several million kroner

in this new effort to understand the reasons for recent significant cost increases, in spite of the industry's four-year cost-cutting initiative, known as Norsok, to bring down costs and increase Norway's competitiveness.

"I am concerned about the consequences of such tendencies. If they materialise, both on the competitive position of the [Norwegian] continental shelf and on state petroleum revenues," said Ms Arnstad, speaking at the 13th Offshore Northern Seas conference. "This is not an admission that Norsok is a

failure. We've succeeded [in bringing down costs] compared with 1992, but we've seen big changes in project costs," she added.

This year, oil companies sought approval for investments totalling a record Nkr68bn (\$8.6bn), 24 per cent more than the government expected. This led the ministry in March to delay a dozen new projects by one year, with the aim of cutting investment by Nkr5bn this year and Nkr12bn in 1999.

Part of the reason for increasing costs has been the pressure for spare capacity

in the industry, fuelling cost overruns on projects. Esso's Balder field in the North Sea, which has been delayed to 1999 from mid-1997, is now expected to come in Nkr3bn over budget, while Statoil has raised estimated costs at its Norwegian Sea Aasgard project to Nkr33.6bn from Nkr27bn.

The evaluation committee's seven representatives - from Norway's state oil company Statoil, Aker Maritime, Kvaerner, Norwegian universities, and the energy ministry - aim to complete their review by January.

By that time, the ministry will have received reports from oil companies on the Norwegian shelf that will be instrumental in determining whether the government needs to postpone any other field developments. However, the ministry does not expect that will be the case given the current oil price situation, Ms Arnstad said.

Norway, which is not a member of the Organisation of Petroleum Exporting Countries, joined other oil-producing nations in May in agreeing to curb global oil output, in an attempt to

boost oil prices that have been more than 30 per cent lower this year than the average for 1997.

Norway has reduced its output by more than 100,000 barrels a day and has no plans at present to make any more cuts, said Ms Arnstad.

In spite of the failure so far of the cuts to lift oil prices, Ms Arnstad expects them to strengthen and stabilise in the next six months. Substantial volumes have been removed from the market and will continue to be held from the market, she said.

## Oil shrugs off delay to meeting

## MARKETS REPORT

By Gary Mead and Kenneth Gooding

This year has been a roller-coaster one for the oil markets and it threatens to continue that way. Prices have been rock-bottom, there has been a flurry of meetings and public statements by ministers from the Organisation of Petroleum Exporting Countries.

Yesterday yet another key producers' meeting, due to take place on Friday, was postponed until September, amid speculation that there was little or no agreement between the three parties concerned: Mexico, Saudi Arabia and Venezuela.

The postponement of the meeting (which was expected to discuss possible further production cuts) was, however, shrugged off by the markets, which persisted in taking a dim view of immediate prospects, even in the light of relatively bigger stock declines in the US than had been expected.

Latest figures from the American Petroleum Institute show US crude oil stocks fell 6.8m barrels last week to almost 340m barrels; the Department of Energy put the fall at 6.8m barrels. However, such figures still leave US crude stocks some 30m barrels above those of this time last year.

Brent blend on the International Petroleum Exchange continued to be range-bound yesterday. In later trading the September contract had shed 33 cents to \$12.35 a barrel.

Prospects for continued low oil prices are threatening the viability of planned new projects, according to Phil Watts, group managing director of the Royal Dutch/Shell group.

Gold in London fell to \$251.80 a troy ounce and silver to just below \$5 an ounce, its lowest for 10 months, under the weight of the over-the-counter options expiry early yesterday.

Once that was out of the way, both precious metals bounced back. Gold closed in London at \$254.35, up \$1 an ounce from Tuesday's close, while silver ended at \$5.035 compared with \$5.045.

Traders said Russia's financial crisis was now an issue. Tony Warwick-Ching, analyst at Fleming's Global Mining Group, said Russia had cut itself off from other sources of credit and had been hinting that precious metals were being mobilised.

Russia had admitted it was involved in gold swaps, where gold is sold with a promise that it will be bought back at a future date.

"Realists argue that a Russian swap is merely a deferred sale," said Mr Warwick-Ching. "In the past when the moment has arrived for redemption, the Russians have simply let their swaps go, since coming up with the dollars to buy back their bullion has proved impossible."

On the London Metal Exchange the price of copper was unchanged but an apparent supply tightness for metal for delivery in September persisted.

Alan Williamson, analyst at Deutsche Bank Research, suggested there was no physical tightness but "the consensus is that it is caused by fund short positions being rolled forward into December. This is mildly bullish in that the funds see further price falls to come and are willing to continue playing the copper market from the short side rather than close their positions."

## Bulgaria to be transit hub for central European gas

Agreement with Russia on increased imports will allow the country to expand its network, say Kerin Hope and Theodore Troev

Bulgaria's ambition to become a transit hub for natural gas to Europe and the Balkans, as well as transit hub for oil, is starting to take practical shape.

A framework agreement signed with Russia earlier this year provides for increasing gas imports from the current annual 6bn cu m to 19bn cu m a year in 2010.

Most of the increase would cover supplies to Turkey, where demand for natural gas is rising sharply, as well as Greece, Serbia, Macedonia and Albania.

The accord marks the end of a protracted dispute between Sofia and Moscow over prices of gas shipments to Bulgaria following the demise of communism.

It also opens the way for Gazprom, the Russian state gas group, to play a bigger role in the Bulgarian market by acquiring full control of Topenery, its joint venture with a group of Sofia-based investors.

"Bulgaria can become a

crossroads for transit pipelines carrying gas to central Europe and the Balkans," said Evgeni Bakardzhiev, Bulgaria's deputy prime minister.

"We plan to set up a western European infrastructure for natural gas, including long-term commercial agreements with suppliers. We also have plans to develop alternative sources of gas supplies," added Mr Bakardzhiev.

Details of pricing for Russian gas supplies to Bulgaria, as well as transit tariffs, have still to be worked out, but they are expected to be slightly below international levels.

The emergence of Topenery as a wholly owned subsidiary of Gazprom, which will handle gas deliveries to Bulgaria, should make it easier to finance investment in Bulgaria's extended pipeline network, according to Bulgarian officials.

Under communism, Bulgaria imported natural gas from the Soviet Union to fuel sprawling industrial com-

plexes, which in turn exported chemicals and mineral products to the Comecon countries.

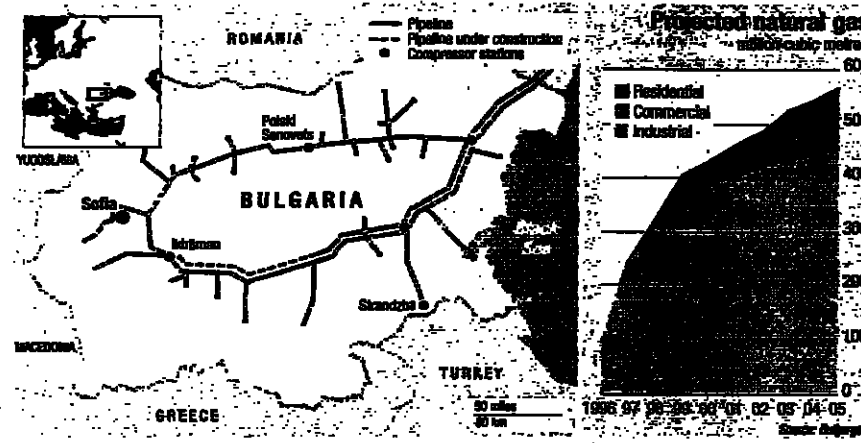
However, the emphasis on heavy industry meant only a handful of Bulgarian cities were able to build low pressure distribution networks to serve domestic consumers.

Bulgargaz, Bulgaria's state gas monopoly, built the country's first transit pipeline in the 1980s to carry Soviet gas to Turkey across the border in eastern Thrace.

The Bulgarian network is also used to supply small quantities of gas to Greece, where the construction of commercial and domestic distribution networks is running several years behind schedule.

In western Bulgaria, a 50km spur pipeline completed last year carries Russian natural gas across the border to the Macedonian capital Skopje.

However, the construction of another 100km spur pipeline to supply Serbia has



been held up because of international financial sanctions against Belgrade.

Bulgaria's painful transition to a market economy, together with the four-year dispute with Russia over gas prices and supplies, stalled plans by Bulgargaz to expand the country's pipeline network.

Bulgargaz officials said that following the new agreement with Moscow, the company would spend up to \$1bn over the next five years on building a second transit pipeline to Turkey, as well as completing the links with Serbia and increasing transit capacity to Greece.

There are also plans to extend the pipeline serving Macedonia across the border into Albania.

"The south Balkans has to

develop its own regional energy network, financed both by international agencies and the private sector as well as governments," said Mr Bakardzhiev.

Exploration for oil and gas off Bulgaria's Black Sea coast has indicated the existence of commercial exploitable gas deposits, which could boost domestic supplies. But the main alternative source of supply would be the central Asian republic of Turkmenistan.

Mr Bakardzhiev said Bulgarian officials had started talks with Royal Dutch/Shell and Bots, the Turkish state gas company, on a project to build a gas pipeline from Turkmenistan to central Europe through Iran, Turkey, and Bulgaria.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from International Metal Trading)

Aluminium, 3027 Purity (\$ per tonne)

Close 1222.5-23.5 1244-4.5

Previous 1229.5-30.5 1250-1

High/Low 1247/1238 1247/1238

Ask/Offer 1249-1250 1249-1250

Net Change 1249-1250 1249-1250

Open 1249-1250 1249-1250

Total daily turnover 1249-1250

Aluminium alloy (\$ per tonne)

Close 1150-55 1172-75

Previous 1147-52 1160-42

High/Low 1160/1170 1160/1170

Ask/Offer 1147-48 1165-66

Net Change 1147-48 1165-66

Open 1147-48 1165-66

Total daily turnover 1147-48

Lead (\$ per tonne)

Close 2075-80 2075-80

Previous 2075-80 2075-80

High/Low 2075/2075 2075/2075

Ask/Offer 2075-80 2075-80

Net Change 2075-80 2075-80

Open 2075-80 2075-80

Total daily turnover 2075-80

Lead (\$ per tonne)

Close 1075-80 1075-80

Previous 1075-80 1075-80

High/Low 1075/1075 1075/1075

Ask/Offer 1075-80 1075-80

Net Change 1075-80 1075-80

Open 1075-80 1075-80

Total daily turnover 1075-80

Lead (\$ per tonne)

Close 1075-80 1075-80

Previous 1075-80 1075-80

High/Low 1075/1075 1075/1075

Ask/Offer 1075-80 1075-80

Net Change 1075-80 1075-80

Open 1075-80 1075-80

Total daily turnover 1075-80

Lead (\$ per tonne)

Close 1075-80 1075-80

Previous 1075-80 1075-80

High/Low 1075/1075 1075/1075

Ask/Offer 1075-80 1075-80

Net Change 1075-80 1075-80

Open 1075-80 1075-80

Total daily turnover 1075-80

Lead (\$ per tonne)

Close 1075-80 1075-80

Previous 1075-80 1075-80

High/Low 1075/1075 1075/1075

Ask/Offer 1075-80 1075-80

Net Change 1075-80 1075-80

Open 1075-80 1075-80

Total daily turnover 1075-80

Lead (\$ per tonne)

Close 1075-80 1075-80

Previous 1075-80 1075-80

High/Low 1075/1075 1075/1075

Ask/Offer 1075-80 1075-80

Net Change 1075-80 1075-80

Open 1075-80 1075-80

Total daily turnover 1075-80

## PRECIOUS METALS CONTINUED

## GOLD COMEX (100 Troy oz; \$ per ounce)

Close 282.2-1.1 284.0 281.1 78 145

Previous 283.3-1.1 286.0 282.2 78 11.81

High/Low 283.3-1.1 286.0 282.2 78 11.81

Ask/Offer 283.3-1.1 286.0 282.2 78 11.81

Net Change 283.3-1.1 286.0 282.2 78 11.81

Open 283.3-1.1 286.0 282.2 78 11.81

Total daily turnover 283.3-1.1

Platinum COMEX (500 Troy oz; \$ per ounce)

Close 320.0-4.8 325.0 320.0 1,818 9,120

Previous 320.0-4.8 325.0 320.0 1,818 9,120

High/Low 320.0-4.8 325.0 320.0 1,818 9,120

Ask/Offer 320.0-4.8 325.0 320.0 1,818 9,120

Net Change 320.0-4.8 325.0 320.0 1,818 9,120

Open 320.0-4.8 325.0 320.0 1,818 9,120

Total daily turnover 320.0-4.8

Palladium COMEX (500 Troy oz; \$ per ounce)

Close 282.0-5.0 285.0 282.0 305 1,220

Previous 282.0-5.0 285.0 282.0 305 1,220

High/Low 282.0-5.0 285.0 282.0 305 1,220

Ask/Offer 282.0-5.0 285.0 282.0 305 1,220

Net Change 282.0-5.0 285.0 282.0 305 1,220

Open 282.0-5.0 285.0 282.0 305 1,220

Total daily turnover 282.0-5.0

Silver COMEX (5000 Troy oz; \$ per ounce)

Close 496.5-4.5 500.0 496.5 20,923 24,475

Previous 496.5-4.5 500.0 496.5 20,923 24,475

High/Low 496.5-4.5 500.0 496.5 20,923 24,475

Ask/Offer 496.5-4.5 500.0 496.5 20,923 24,475

Net Change 496.5-4.5 500.0 496.5 20,923 24,475

Open 496.5-4.5 500.0 496.5 20,923 24,475

Total daily turnover 496.5-4.5

Energy

Crude oil NYMEX (1,000 barrels; \$ per barrel)

Close 13.52-0.25 13.54 13.36 42,255 131,41

Previous 13.52-0.25 13.54 13.36 42,255 131,41

High/Low 13.52-0.25 13.54 13.36 42,255 131,41

Ask/Offer 13.52-0.25 13.54 13.36 42,255 131,41

Net Change 13.52-0.25 13.54 13.36 42,255 131,41

Open 13.52-0.25 13.54 13.36 42,255 131,41

Total daily turnover 13.52-0.25

Crude oil ICE (1,000 barrels; \$ per barrel)

Close 13.52-0.25 13.54 13.36 42,255 131,41

Previous 13.52-0.25 13.54 13.36 42,255 131,41

High/Low 13.52-0.25 13.54 13.36 42,255 131,41

Ask/Offer 13.52-0.25 13.54 13.36 42,255 131,41

Net Change 13.52-0.25 13.54 13.36 42,255 131,41

Open 13.52-0.25 13.54 13.36 42,255 131,41

Total daily turnover 13.52-0.25

Crude oil ICE (1,000 barrels; \$ per barrel)

Close 13.52-0.25 13.54 13.36 42,255 131,41

Previous 13.52-0.25 13.54 13.36 42,255 131,41

High/Low 13.52-0.25 13.54 13.36 42,255 131,41

Ask/Offer 13.52-0.25 13.54 13.36 42,255 131,41

Net Change 13.52-0.25 13.54 13.36 42,255 131,41

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Total daily turnover 13.52-0.25

Crude oil ICE (1,000 barrels; \$ per barrel)

Close 13.52-0.25 13.54 13.36 42,255 131,41

Previous 13.52-0.25 13.54 13.36 42,255 131,41

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Open 13.52-0.25 13.54 13.36 42,255 131,41

Total daily turnover 13.52-0.25

Crude oil ICE (1,00



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**(REGULATED)**<sup>(\*)</sup>

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**21. 2000 Pharmacy Fund Inc.**  
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NEWS DIGEST  
MARKET DEBT

**Crisis prompts fall in  
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## 4. UNPAID BONDS

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## OTHER OFFSHORE FUNDS

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1978-79	1977-78	1976-77	1975-76	1974-75	1973-74	1972-73	1971-72	1970-71	1969-70	1968-69	1967-68	1966-67	1965-66	1964-65	1963-64	1962-63	1961-62	1960-61	1959-60	1958-59	1957-58	1956-57	1955-56	1954-55	1953-54	1952-53	1951-52	1950-51	1949-50	1948-49	1947-48	1946-47	1945-46	1944-45	1943-44	1942-43	1941-42	1940-41	1939-40	1938-39	1937-38	1936-37	1935-36	1934-35	1933-34	1932-33	1931-32	1930-31	1929-30	1928-29	1927-28	1926-27	1925-26	1924-25	1923-24	1922-23	1921-22	1920-21	1919-20	1918-19	1917-18	1916-17	1915-16	1914-15	1913-14	1912-13	1911-12	1910-11	1909-10	1908-09	1907-08	1906-07	1905-06	1904-05	1903-04	1902-03	1901-02	1900-01	1899-00	1898-99	1897-98	1896-97	1895-96	1894-95	1893-94	1892-93	1891-92	1890-91	1889-90	1888-89	1887-88	1886-87	1885-86	1884-85	1883-84	1882-83	1881-82	1880-81	1879-80	1878-79	1877-78	1876-77	1875-76	1874-75	1873-74	1872-73	1871-72	1870-71	1869-70	1868-69	1867-68	1866-67	1865-66	1864-65	1863-64	1862-63	1861-62	1860-61	1859-60	1858-59	1857-58	1856-57	1855-56	1854-55	1853-54	1852-53	1851-52	1850-51	1849-50	1848-49	1847-48	1846-47	1845-46	1844-45	1843-44	1842-43	1841-42	1840-41	1839-40	1838-39	1837-38	1836-37	1835-36	1834-35	1833-34	1832-33	1831-32	1830-31	1829-30	1828-29	1827-28	1826-27	1825-26	1824-25	1823-24	1822-23	1821-22	1820-21	1819-20	1818-19	1817-18	1816-17	1815-16	1814-15	1813-14	1812-13	1811-12	1810-11	1809-10	1808-09	1807-08	1806-07	1805-06	1804-05	1803-04	1802-03	1801-02	1800-01	1799-00	1798-99	1797-98	1796-97	1795-96	1794-95	1793-94	1792-93	1791-92	1790-91	1789-90	1788-89	1787-88	1786-87	1785-86	1784-85	1783-84	1782-83	1781-82	1780-81	1779-80	1778-79	1777-78	1776-77	1775-76	1774-75	1773-74	1772-73	1771-72	1770-71	1769-70	1768-69	1767-68	1766-67	1765-66	1764-65	1763-64	1762-63	1761-62	1760-61	1759-60	1758-59	1757-58	1756-57	1755-56	1754-55	1753-54	1752-53	1751-52	1750-51	1749-50	1748-49	1747-48	1746-47	1745-46	1744-45	1743-44	1742-43	1741-42	1740-41	1739-40	1738-39	1737-38	1736-37	1735-36	1734-35	1733-34	1732-33	1731-32	1730-31	1729-30	1728-29	1727-28	1726-27	1725-26	1724-25	1723-24	1722-23	1721-22	1720-21	1719-20	1718-19	1717-18	1716-17	1715-16	1714-15	1713-14	1712-13	1711-12	1710-11	1709-10	1708-09	1707-08	1706-07	1705-06	1704-05	1703-04	1702-03	1701-02	1700-01	1699-00	1698-99	1697-98	1696-97	1695-96	1694-95	1693-94	1692-93	1691-92	1690-91	1689-90	1688-89	1687-88	1686-87	1685-86	1684-85	1683-84	1682-83	1681-82	1680-81	1679-80	1678-79	1677-78	1676-77	1675-76	1674-75	1673-74	1672-73	1671-72	1670-71	1669-70	1668-69	1667-68	1666-67	1665-66	1664-65	1663-64	1662-63	1661-62	1660-61	1659-60	1658-59	1657-58	1656-57	1655-56	1654-55	1653-54	1652-53	1651-52	1650-51	1649-50	1648-49	1647-48	1646-47	1645-46	1644-45	1643-44	1642-43	1641-42	1640-41	1639-40	1638-39	1637-38	1636-37	1635-36	1634-35	1633-34	1632-33	1631-32	1630-31	1629-30	1628-29	1627-28	1626-27	1625-26	1624-25	1623-24	1622-23	1621-22	1620-21	1619-20	1618-19	1617-18	1616-17	1615-16	1614-15	1613-14	1612-13	1611-12	1610-11	1609-10	1608-09	1607-08	1606-07	1605-06	1604-05	1603-04	1602-03	1601-02	1600-01	1599-00	1598-99	1597-98	1596-97	1595-96	1594-95	1593-94	1592-93	1591-92	1590-91	1589-90	1588-89	1587-88	1586-87	1585-86	1584-85	1583-84	1582-83	1581-82	1580-81	1579-80	1578-79	1577-78	1576-77	1575-76	1574-75	1573-74	1572-73	1571-72	1570-71	1569-70	1568-69	1567-68	1566-67	1565-66	1564-65	1563-64	1562-63	1561-62	1560-61	1559-60	1558-59	1557-58	1556-57	1555-56	1554-55	1553-54	1552-53	1551-52	1550-51	1549-50	1548-49	1547-48	1546-47	1545-46	1544-45	1543-44	1542-43	1541-42	1540-41	1539-40	1538-39	1537-38	1536-37	1535-36	1534-35	1533-34	1532-33	1531-32	1530-31	1529-30	1528-29	1527-28	1526-27	1525-26	1524-25	1523-24	1522-23	1521-22	1520-21	1519-20	1518-19	1517-18	1516-17	1515-16	1514-15	1513-14	1512-13	1511-12	1510-11	1509-10	1508-09	1507-08	1506-07	1505-06	1504-05	1503-04	1502-03	1501-02	1500-01	1499-00	1498-99	1497-98	1496-97	1495-96	1494-95	1493-94	1492-93	1491-92	1490-91	1489-90	1488-89	1487-88	1486-87	1485-86	1484-85	1483-84	1482-83	1481-82	1480-81	1479-80	1478-79	1477-78	1476-77	1475-76	1474-75	1473-74	1472-73	1471-72	1470-71	1469-70	1468-69	1467-68	1466-67	1465-66	1464-65	1463-64	1462-63	1461-62	1460-61	1459-60	1458-59	1457-58	1456-57	1455-56	1454-55	1453-54	1452-53	1451-52	1450-51	1449-50	1448-49	1447-48	1446-47	1445-46	1444-45	1443-44	1442-43	1441-42	1440-41	1439-40	1438-39	1437-38	1436-37	1435-36	1434-35	1433-34	1432-33	1431-32	1430-31	1429-30	1428-29	1427-28	1426-27	1425-26	1424-25	1423-24	1422-23	1421-22	1420-21	1419-20	1418-19	1417-18	1416-17	1415-16	1414-15	1413-14	1412-13	1411-12	1410-11	1409-10	1408-09	1407-08	1406-07	1405-06	1404-05	1403-04	1402-03	1401-02	1400-01	1399-00	1398-99	1397-98	1396-97	1395-96	1394-95	1393-94	1392-93	1391-92	1390-91	1389-90	1388-89	1387-88	1386-87	1385-86	1384-85	1383-84	1382-83	1381-82	1380-81	1379-80	1378-79	1377-78	1376-77	1375-76	1374-75	1373-74	1372-73	1371-72	1370-71	1369-70	1368-69	1367-68	1366-67	1365-66	1364-65	1363-64	1362-63	1361-62	1360-61	1359-60	1358-59	1357-58	1356-57	1355-56	1354-55	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Managed Investor Fund Ltd	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3297	3298	3299	3300	3301	3302	3303	3304	3305	3306	3307	3308	3309	3310	3311	3312	3313	3314	3315	3316	3317	3318	3319	3320	3321	3322	3323	3324	3325	3326	3327	3328	3329	3330	3331	3332	3333	3334	3335	3336	3337	3338	3339	3340	3341	3342	3343	3344	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354	3355	3356	3357	3358	3359	3360	3361	3362	3363	3364	3365	3366	3367	3368	3369	3370	3371	3372	337
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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3297	3298	3299	3300	3301	3302	3303	3304	3305	3306	3307	3308	3309	3310	3311	3312	3313	3314	3315	3316	3317	3318	3319	3320	3321	3322	3323	3324	3325	3326	3327	3328	3329	3330	3331	3332	3333	3334	3335	3336	3337	3338	3339	3340	3341	3342	3343	3344	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354	3355	3356	3357	3358	3359	3360	3361	3362	3363	3364	3365	3366	3367	3368	3369	3370	3371	3372	3373
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Highs & Lows shown on a 52 week basis.

# WORLD STOCK MARKETS

## EUROPE

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE 100	4,812.50	4,787.50	4,795.00	4,805.00	+10.00
DAX	3,450.00	3,430.00	3,440.00	3,445.00	+5.00
CAC 40	3,550.00	3,530.00	3,540.00	3,545.00	+5.00
Nikkei 225	14,500.00	14,400.00	14,450.00	14,480.00	+30.00
Hong Kong	8,500.00	8,400.00	8,450.00	8,480.00	+30.00
Shanghai	3,500.00	3,400.00	3,450.00	3,480.00	+30.00

## AMERICA

August 26 (Fri)

Index	High	Low	Open	Close	Change
S&P 500	7,250.00	7,200.00	7,210.00	7,220.00	+10.00
NASDAQ	2,500.00	2,450.00	2,460.00	2,470.00	+10.00
Dow Jones	8,500.00	8,400.00	8,450.00	8,480.00	+30.00

## ASIA

August 26 (Fri)

Index	High	Low	Open	Close	Change
TSE 1st Section	1,500.00	1,480.00	1,490.00	1,495.00	+5.00
KOSPI	250.00	245.00	248.00	249.00	+1.00
SEACOM	1,200.00	1,180.00	1,190.00	1,195.00	+5.00

## AFRICA

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE Africa	1,500.00	1,480.00	1,490.00	1,495.00	+5.00

## ISLAMIC

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE Islamic	1,500.00	1,480.00	1,490.00	1,495.00	+5.00

## COMMODITIES

August 26 (Fri)

Commodity	High	Low	Open	Close	Change
Oil	25.00	24.50	24.80	24.90	+0.10
Gold	350.00	345.00	348.00	349.00	+1.00
Silver	15.00	14.50	14.80	14.90	+0.10

## FX

August 26 (Fri)

Pair	High	Low	Open	Close	Change
USD/GBP	1.6000	1.5900	1.5950	1.5980	+0.0030
USD/JPY	145.00	144.00	144.50	144.80	+0.30
USD/DEM	1.6000	1.5900	1.5950	1.5980	+0.0030

## FTSE 100

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE 100	4,812.50	4,787.50	4,795.00	4,805.00	+10.00

## FTSE 100

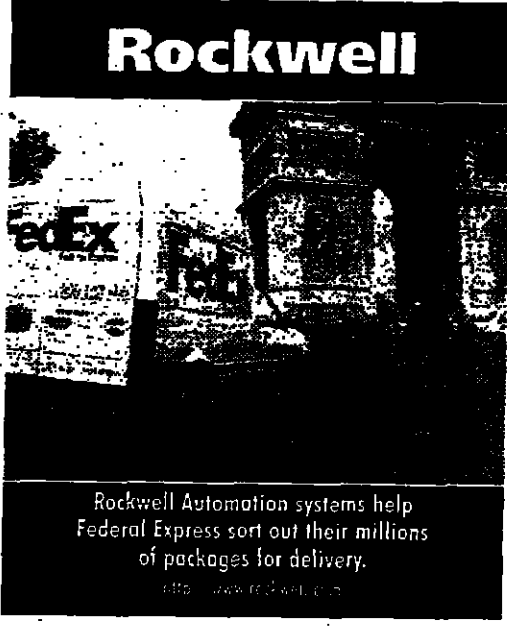
August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE 100	4,812.50	4,787.50	4,795.00	4,805.00	+10.00

## FTSE 100

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Rockwell Automation systems help Federal Express sort out their millions of packages for delivery.

Rockwell Automation

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## ASIA

August 26 (Fri)

Index	High	Low	Open	Close	Change
TSE 1st Section	1,500.00	1,480.00	1,490.00	1,495.00	+5.00
KOSPI	250.00	245.00	248.00	249.00	+1.00
SEACOM	1,200.00	1,180.00	1,190.00	1,195.00	+5.00

## AFRICA

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE Africa	1,500.00	1,480.00	1,490.00	1,495.00	+5.00

## ISLAMIC

August 26 (Fri)

Index	High	Low	Open	Close	Change
FTSE Islamic	1,500.00	1,480.00	1,490.00	1,495.00	+5.00

## COMMODITIES

August 26 (Fri)

Commodity	High	Low	Open	Close	Change
Oil	25.00	24.50	24.80	24.90	+0.10
Gold	350.00	345.00	348.00	349.00	+1.00
Silver	15.00	14.50	14.80	14.90	+0.10

## FX

August 26 (Fri)

Pair	High	Low	Open	Close	Change
USD/GBP	1.6000	1.5900	1.5950	1.5980	+0.0030
USD/JPY	145.00	144.00	144.50	144.80	+0.30
USD/DEM	1.6000	1.5900	1.5950	1.5980	+0.0030

## FTSE 100

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FTSE 100	4,812.50	4,787.50	4,795.00	4,805.00	+10.00

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August 26 (Fri)

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## ISLAMIC



## NEW YORK STOCK EXCHANGE PRICES

[illegible]



## GLOBAL EQUITY MARKETS

## US INDICES

Div. Name	Aug 25	Aug 24	Aug 21	1992 Low	1992 High	1992 Composite Low	1992 Composite High
Industries	400.82	403.81	403.85	352.97 (77.77)	779.42 (104.12)	632.97 (104.12)	632.97 (104.12)
Home Bldg.	105.15	105.74	105.34	103.46 (2.74)	114.82 (11.48)	103.46 (2.74)	114.82 (11.48)
Transport	202.55	207.14	205.96	200.82 (200.82)	209.06 (209.06)	200.82 (200.82)	209.06 (209.06)
Utilities	263.25	264.22	263.16	259.12 (4.14)	274.98 (5.86)	259.12 (4.14)	274.98 (5.86)
Drugs, Health & Beauty	540.81	540.80	540.82	512.22 (28.59)	542.26 (21.44)	512.22 (28.59)	542.26 (21.44)
Drugs, Health & Beauty (excl. Dr. Scher)	540.81	540.80	540.82	512.22 (28.59)	542.26 (21.44)	512.22 (28.59)	542.26 (21.44)
Consumer & Food							
Department	100.21	100.14	100.11	118.76 (27.77)	127.29 (17.18)	118.76 (27.77)	127.29 (17.18)
Groceries	125.21	125.73	125.01	120.46 (4.75)	127.47 (7.01)	120.46 (4.75)	127.47 (7.01)
Foodservice	122.21	122.94	122.41	141.12 (19.01)	147.47 (6.35)	141.12 (19.01)	147.47 (6.35)
Others							
Office Equip.	545.01	543.75	543.82	503.76 (41.25)	567.47 (63.71)	503.76 (41.25)	567.47 (63.71)
Auto Equip.	945.16	945.25	945.85	753.87 (19.29)	945.41 (0.54)	753.87 (19.29)	945.41 (0.54)
MACHINERY	1756.17	1756.82	1757.51	2014.28 (257.11)	2014.25 (0.03)	2014.28 (257.11)	2014.25 (0.03)
Retail	389.78	389.78	389.64	401.45 (11.67)	389.78 (0.13)	401.45 (11.67)	389.78 (0.13)
FIN RATIOS							
Dividend Jones Ind. Div. Yield	Aug 21 1.44	Aug 18 1.45	Aug 15 1.75	Aug 12 1.71	Aug 9 1.86	Aug 6 1.86	Aug 3 1.85
P & S P. Ind. Div. Yield	Aug 21 3.07	Aug 18 3.09	Aug 15 3.13	Aug 12 3.24	Aug 9 3.35	Aug 6 3.35	Aug 3 3.50
P & S P. Ind. P/E Ratio	Aug 21 11.08	Aug 18 11.08	Aug 15 11.08	Aug 12 11.08	Aug 9 11.08	Aug 6 11.08	Aug 3 11.08

## THIS DATA

IN MARKET ACTIVITY									
● Volume by date				NYSE					
	Aug 25	Aug 24	Aug 21		Aug 25	Aug 24	Aug 21		
NYSE	882,740	938,800	725,700	Index Traded	3,557	3,284	3,223		
	27,880	21,470	35,540	Unchanged	1,360	1,280	1,275		
NASDAQ	64,855	59,408	78,715	New Stg	519	520	495		
				Old Stg	31	31	22		
IN MORE TRADING ACTIVITY									
Volume: 1,632,740,000									
IN ACTIVE STOCKS					IN ISSUED BONDS				
Tuesday	Stocks	Cross	Days' change		Tuesday	Cross	Days' change	Days' change %	
Cumulative	2,227,600	245	+10		Line				
Amort	2,590,300	25	+10		90 Dm	73%	+1%	+0.5	
July	5,600,500	35	+14		180	21%	+4%	+7.5	
Aug	5,400,000	35	+14		Unfed	43%	+2%	+2.5	
Sept	5,200,000	35	+14		2Yr	29%	+3%	+7.5	
October	4,797,000	35	+14		3Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		4Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		5Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		6Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		7Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		8Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		9Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		10Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		11Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		12Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		13Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		14Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		15Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		16Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		17Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		18Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		19Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		20Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		21Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		22Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		23Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		24Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		25Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		26Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		27Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		28Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		29Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		30Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		31Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		32Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		33Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		34Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		35Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		36Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		37Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		38Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		39Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		40Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		41Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		42Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		43Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		44Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		45Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		46Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		47Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		48Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		49Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		50Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		51Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		52Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		53Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		54Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		55Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		56Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		57Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		58Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		59Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		60Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		61Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		62Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		63Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		64Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		65Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		66Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		67Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		68Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		69Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		70Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		71Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		72Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		73Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		74Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		75Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		76Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		77Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		78Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		79Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		80Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		81Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		82Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		83Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		84Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		85Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		86Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		87Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		88Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14		89Yr	28%	+3%	+7.5	
Jan	4,797,000	35	+14		90Yr	28%	+3%	+7.5	
Feb	4,797,000	35	+14		91Yr	28%	+3%	+7.5	
Mar	4,797,000	35	+14		92Yr	28%	+3%	+7.5	
Apr	4,797,000	35	+14		93Yr	28%	+3%	+7.5	
May	4,797,000	35	+14		94Yr	28%	+3%	+7.5	
June	4,797,000	35	+14		95Yr	28%	+3%	+7.5	
July	4,797,000	35	+14		96Yr	28%	+3%	+7.5	
Aug	4,797,000	35	+14		97Yr	28%	+3%	+7.5	
Sept	4,797,000	35	+14		98Yr	28%	+3%	+7.5	
Oct	4,797,000	35	+14		99Yr	28%	+3%	+7.5	
Nov	4,797,000	35	+14		100Yr	28%	+3%	+7.5	
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
Aug	4,797,000	35	+14						
Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
Aug	4,797,000	35	+14						
Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
Aug	4,797,000	35	+14						
Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
Aug	4,797,000	35	+14						
Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
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Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						
Apr	4,797,000	35	+14						
May	4,797,000	35	+14						
June	4,797,000	35	+14						
July	4,797,000	35	+14						
Aug	4,797,000	35	+14						
Sept	4,797,000	35	+14						
Oct	4,797,000	35	+14						
Nov	4,797,000	35	+14						
Dec	4,797,000	35	+14						
Jan	4,797,000	35	+14						
Feb	4,797,000	35	+14						
Mar	4,797,000	35	+14						

**First-Timer**

Aug 79	Aug 80
1240	1200

**Security / Information**

THRU				THRU			
High	Low	Days completion	Days	High	Low	Days completion	Days
		High	Low			High	Low
5208.18	1404.41	5888.8	85.29	CAC 40	3075.17	4009.32	3602.7
Volume : 452,800,000				Days high : 4881 Days low : 2698.12			
IN PAIR'S TRADING ACTIVITY							
IN ACTIVE STOCKS							
Weekend	Close price	Day's change	Day's change	Weekend	Close price	Day's change	Day's change
		High	Low			High	Low
Vol	251	+0.6	+0.6	Vol	2,180,164	477	-13.3
Open	151	-0.6	-0.6	High	1,260,165	64.9	-3.7
Close	321	-0.6	-0.6	Low	1,136,020	49.9	-12.1
High	740	-0.6	-0.6	Open	624,161	28.1	-1.1
Low	52	-0.6	-0.6	High	771,626	64.9	-3.7
Open	52	-0.6	-0.6	Low	391,218	10.94	-0.6
Close	401	-0.6	-0.6	Open	434,128	54.9	-2.9
High	229	-0.6	-0.6	High	153,165	19.9	-1.9
Low	172	-0.6	-0.6	Low	461,254	61.9	-7.9
				Open	62,769	7.9	-1.9

THRU				THRU			
High	Low	Days completion	Days	High	Low	Days completion	Days
		High	Low			High	Low
6071.48	4007.38	6071.48	531.19	FTSE 100	5545.4	5564.4	5553.4
Volume : n/a				Days high : 5604.4 Days low : 5461.7			
IN PAIR'S TRADING ACTIVITY							
IN ACTIVE STOCKS							
Weekend	Close price	Day's change	Day's change	Weekend	Close price	Day's change	Day's change
		High	Low			High	Low
Vol	22.9	+0.5	+0.8	Vol	47,052,360	342	-6.4
Open	121.1	+0.9	+0.2	High	17,466,000	130	-7.5
Close	102.1	+0.9	+0.2	Low	16,757,150	98.9	-1.9
High	269.1	+0.9	+0.2	Open	12,275,516	86.7	-0.7
Open	102.1	+0.9	+0.2	High	10,165,161	100.9	-1.9
Close	391	-0.1	-1.1	Low	7,918,020	77.9	-0.9
High	54	-1.1	-1.4	Open	16,100,360	100.9	-1.9
Low	102.1	-1.1	-1.4	High	10,165,161	100.9	-1.9
Open	102.1	-1.1	-1.4	Low	7,918,020	77.9	-0.9

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1988		Days completion	
High	Low	High	Low
4206.48	2882.54	4206.48	184.87
Volume : 462,399,239			
BY REQUEST SERVICES			
Subcategory	Days	Day's change	Day's change %
Joe			
Managers Day	138	+13	+9.3
Customer Day	31.8	+2.65	+8.1
Manager	300	+32	+10.7
Manager	28	+11	+7.0
Manager			
Manager	489	-32	-15.6
Manager	117.2	-10.3	-8.1
Manager	200	-20	-10.7
Manager	388.8	-19.2	-4.9
1986			
High	Low	Days completion	Low
8778.88	5508.82	8778	688.8
Volume : 877,888,888			
BY REQUEST SERVICES			
Subcategory	Days	Day's change	Day's change %
Joe			
Manager Ind	18	-2	-12.5
Manager Ind	7	-4	-12.5
Manager Ind	207	+7	+3.4
Manager Ind	271		
Manager Ind	53	-21.4	-28.9
Manager Ind	111.4		-28.9
Manager Ind	111.4		-28.9

## INDEX FUTURES

	Open	Sell price	Change	High
SEP 500				
Sep	1095.00	1094.20	-11.30	1096.00
Dec	-	1107.20	-	-
NI Midcap 225	Open	Sell price	Change	High
Sep	15010.0	14850.0	-220.0	15050.0
Dec	14980.0	14780.0	-220.0	14980.0

Don't forget to check for weekend data

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1999 Low	* Yield	% PE	Country	Index	Aug 20	Aug 25	Aug 24	1998 High	1999 Low	* Yield	% PE
10833.76	21.0	3.94	13.40	Germany	Dax	3398.30	3370.40	3723.70	3393.58	2394	na
BVL 30 index rose among the top among European and Pan-European indices											
2524.00	10.68	3.30	10.80	India	NSE SENSEX	2003.20	2000.40	4200.00	2100	2003.20	na
1020.00	17.76	na	na	China	SSE 500	900.11	891.82	903.85	2100	123.02	10.68
Nikkei 225 index rose among the top among Asian indices											
121.80	1.70	1.70	13.70	Japan	Nikkei 225	15300.00	15200.00	15300.00	15300.00	15300.00	15300.00
121.80	1.70	1.70	13.70	Korea	KOSPI	3000.00	2950.00	3000.00	3000.00	3000.00	3000.00
2387.72	10.01	1.05	21.40	Indonesia	JSEI COMEX	4718.44	4718.00	4718.35	10178.14	2100	18.60
Indonesia's coal and sugar prices rose among the top among Asian indices											
704.00	25.00	na	na	Israel	Tel Aviv 100	302.31	300.44	308.40	357.43	100	na
Tel Aviv 100 index rose among the top among Middle Eastern indices											
300.00	12.00	1.04	20.10	Italy	ISEQ COMEX	3467.00	3454.75	3465.00	3600.00	207	1.71
205.00	24.00	na	na	France	CAC 40	3448.00	3432.52	3443.00	3600.00	207	1.71
205.00	24.00	na	na	Spain	IBEX 35	3000.00	2950.00	3000.00	3000.00	207	1.71
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205.00	24.00	na	na	France	CAC 40						

## THE NASDAQ STOCK MARKET

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## THE NASDAQ STOCK MARKET

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# STOCK MARKETS

## Russian debt moves bring rally to halt

### WORLD OVERVIEW

Hopes that the correction in global stock markets might be over yesterday as the latest developments in the Russian crisis put a stop to the rally, writes Philip Cogan.

The terms of the Russian debt restructuring, announced late on Tuesday, were disappointing to overseas investors, effectively locking them into rouble-denominated, rather than

dollar-denominated paper for a long period.

Trading in the rouble against the dollar was suspended, and then declared void, on the Moscow Interbank Currency Exchange. The rouble/Dollar rate was fixed at 7.6, compared with 4.4995 on Tuesday, a 40.8 per cent decline on the day. That implied a rouble/dollar rate of almost 14 to the dollar. The Russian central bank said it had stopped defend-

ing the currency. Meanwhile, the Moscow stock market closed down 13.8 per cent.

Russia represents only a very small proportion of world trade, but the markets nevertheless had plenty of issues to concern them; notably the effect on banks exposed to Russian debt. Credit Suisse warned that the profits of its investment bank, Credit Suisse First Boston, would be adversely affected in the second half,

while shares in German banks were battered including Deutsche, which also lost its AAA credit rating yesterday.

"The closest parallels are with the Mexican default in 1992," said Matthew Merritt, emerging markets strategist at ING Barings. "This adds to the contagion effect sweeping through emerging markets and puts pressure on countries with currency pegs."

"It is hard to see what will

turn things around," he added. "We need a period of relative stability in emerging markets before individual markets can break away from the pack."

European markets were the worst affected by the Russian news, with the CAC 40 in Paris and the Dax in Frankfurt dropping by 2.3 per cent. Wall Street did nothing to help sentiment, with the Dow Jones Industrial Average quickly falling more than 100 points.

But not everyone was gloomy. Joe Rooney, global strategist at Lehman Brothers, remains sanguine, arguing that "the downside is limited, so long as interest rates and inflation are coming down, and value exists in equity markets. It is difficult to believe we're heading for a global depression. As long as the US and European economies remain sound it is hard to see the current correction turning into a bear market."

### EMERGING MARKET FOCUS

## Jo'burg attacked on two fronts

The Johannesburg stock exchange, already under pressure from shaky global markets, has been hit by a spate of bad news on the domestic front this week, highlighting South Africa's economic and political difficulties.

Disappointing inflation figures, rumours of troubles in the banking industry and a bomb blast in Cape Town caused the all share index to plunge about 6 per cent or 365.6 to 5,532.0 yesterday. Earlier in the day, the market dropped about 9 per cent in hectic trade reminiscent of last October's correction.

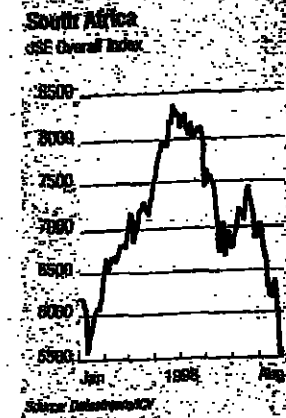
The market opened weaker amid concerns about the Russian financial crisis, and sentiment quickly worsened after the release of producer inflation data for July, showing the effects of the currency crisis.

Producer inflation shot up to 3.7 per cent from June's 2.8 per cent, raising fears that interest rates would have to remain high for a long time. The inflation figures followed growth data, which showed the economy dangerously close to recession.

Interest rates are already at their highest level for about 13 years as a result of the speculative attack on the rand, which has wiped more than 20 per cent off its value against the dollar since late May.

The market was also nervous after the bomb attack in the Planet Hollywood restaurant in Cape Town on Monday evening in which two people died and 27 were injured. Muslim militants claimed responsibility for the blast. Analysts said the blast would intensify concerns about South Africa as an investment destination when investors' appetites for risk in emerging markets was already disappearing.

Foreigners' risk-aversion has triggered a stampede out of South Africa's bond market. Foreign investors have dumped billions of rands'



Source: Johannesburg Stock Exchange

## Dow rallies strongly after big early fall

### AMERICAS

Wall Street was shaken by further concerns centred on Russia, and in morning trade the Dow Jones Industrial Average was down more than 120 points on one stage, writes John Labate in New York.

The latest Russian turmoil sparked fresh fears that other emerging markets would be dragged lower. By midday, the mood among US investors had improved but still remained negative. On the New York Stock Exchange declining shares outpaced winners by more than 3 to 1.

"It's one thing when you have a few microscopic economies faltering, but it's another when every emerging market around you is under severe pressure," said Bill Meehan, chief market analyst at Cantor Fitzgerald. By early afternoon, the Dow was off its worst morning levels, down 22.65 to 8,580.00, and the broader Standard & Poor's 500 was off by less than a point at 1,092.03.

"There is a bear market going on. It's just being masked by a small number of large-cap stocks, the fifty-fifty," Mr Meehan added.

While most Dow shares pushed lower, some gained ground including Merck, up 1.1 per cent to \$34.40, and IBM, which gained 0.3 per cent to \$131.40.

Small company and technology shares were hit by the most aggressive selling, sending the Russell 2,000 index down 1.6 per cent or 6.25 to 383.51. The Nasdaq composite, which is weighted in technology shares, was off 14.91 to 1,783.28.

On the domestic front,

analysts were surprised by the latest sign of US economic growth in the durable goods report. In July, durable goods orders rose 2.4 per cent, with orders for consumer goods accounting for much of the gain.

Financial shares, which had been on the rebound earlier in the week, were down again, sending the Philadelphia Stock Exchange's banking index down 3.64 to 747.40.

Citicorp fell 1.1 per cent to \$34.40, and J.P. Morgan was off 0.1 per cent to \$34.40. Applied Materials, the semiconductor equipment producer, fell 0.5 per cent or \$1.11 to \$29.00 one day after the company said it would cut its global workforce by 2,000.

CBS was down 0.1 per cent or almost 5 per cent to \$26.40 after a report that the company may be forced to reduce its workforce.

Despite the downward pressure, shares of Dell Computer managed to advance, up 0.3 per cent to \$127.40. Adobe Systems was up by more than 0.5 per cent or 0.24 to \$26.40 on speculation that the company is a takeover target.

TORONTO was more than 1 per cent lower at mid-session as investors continued to respond cautiously to Russia's unfolding economic turmoil and Canada's falling dollar. The TSE-300 composite index fell 65.18 to 6,150.83 in volume of 39.3m shares.

Overall, 13 of the market's 14 sub-indices were lower, led by a 2.9 per cent fall in the financial services sector. Among the banks, Royal Bank of Canada was 85 cents lower at C\$64.90. The heavily traded Oxford Properties Group put on 60 cents to C\$15.

## São Paulo falls sharply

Latin American markets were hit by deteriorating sentiment towards the region caused by the Russian turmoil.

SAO PAULO declined, led by blue chips, and the Bovespa index fell 140 or 1.8 per cent to 7,509. Eletrobrás, the energy holding company, fell R\$0.99 or 4 per cent to R\$23.91 while oil group Petrobras lost R\$6.50 or 4.2 per cent to 149.50. Telebras,

which accounts for about half of overall trading, lost R\$1.50 to R\$97.

BUENOS AIRES fell 2 per cent with the Merval down 8.17 to 407.02 in volatile trading. Banco Galicia lost 0.33 pesos to 3.52 pesos.

MEXICO CITY tumbled on currency fears as the peso lost ground against the dollar in early trading. The IPC index lost 2.7 per cent or 90.28 to 3,278.51.

## Banks lead Frankfurt lower

### EUROPE

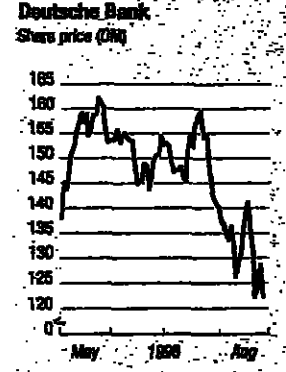
The Russian bear inflicted hefty damage on Frankfurt as the hard-hit banking sector, heavily exposed to Russia, led the market down 3 per cent. The Xetra Dax index, down to 5,208.36 at one stage, finished 159.41 lower at 5,247.62.

The setback came after Tuesday's news of Moscow's restructuring package for around \$40bn in rouble-denominated domestic debt. Deutsche Bank led the retreat with a fall of DM7.30 to DM122.20 as Standard and Poor's added to the gloom by lowering the bank's long-term credit rating to AA+.

Commerzbank lost DM2.91 to DM5.41 and Dresdner Bank DM3.36 to DM87.89. Lufthansa made an early attempt to buck the downward trend after Tuesday's first-half results. But by the close, the shares were DM2.40 lower at DM45.

ZURICH was pulled down by a 4.5 per cent tumble in CS Group as the bank said that turmoil in global markets, most notably Russia, had reduced its investment bank CS First Boston's 1998 net profit to around \$60m from \$75m in 1997.

CS Group lost SF13.50 to SF285. Some analysts noted, however, that recent market rumours had put CSFB's exposure to Russia as high



Source: Deutsche Bank

as \$8bn. In a less nervous market, the bank's statement might have been expected to push the share price higher.

The mood was soured for other financials. UBS, up 3.5 per cent on Tuesday as first-half net profit exceeded market expectations, gave up SF13 to SF152.4. Among insurers, Zurich dropped SF14 to SF1961 and Swiss Re lost SF106 to SF134.80.

The high-tech sector remained under pressure for a second straight day. Esoc, which lost 16.5 per cent when it issued a profits warning on Tuesday, tumbled another SF2.85 to SF7.75 after hitting an intra-day low of SF6.90.

The SMI index finished 17.8 or 2.4 per cent lower at 7,211.7.

AMSTERDAM lost ground led by financials and Philips,

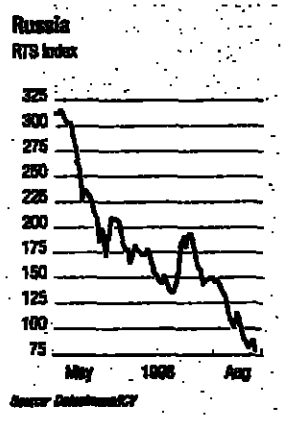
## Moscow plunges 13% after debt swap deal

Dismay at the Russian government's debt swap deal, announced last Tuesday, sent MOSCOW plunging another 13.8 per cent. The RTS index dropped 12.24 to 78.26 but analysts noted that trading volume of \$4.6m was among the lowest recorded.

The latest fall extended the market's decline since its high for the year in early January to 61.5 per cent. Analysts said many bankers and investors found the debt swap conditions very harsh and unacceptable.

Some major western banks reported the Russian government had also defaulted on coupon payments on government debt not covered by the restructuring plan.

The mood was further depressed by another sharp fall in the rouble, and the central bank's announcement that it would scale



Source: Reuters

down its interventions to defend the currency.

BUCHAREST, a loser in the eight previous sessions, plunged another 9.3 per cent as small investors rushed to sell to cover losses in neighbouring markets. The composite index dropped 49.76 to an all-time low of 488.13.

## Nikkei slips back below 15,000

### ASIA PACIFIC

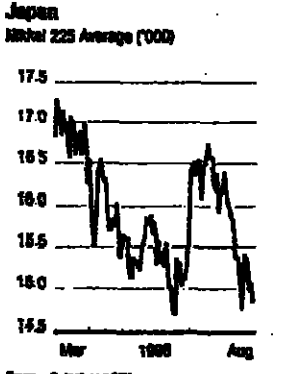
Political disputes that have delayed the government's response to the crisis in Japan's banking sector pulled TOKYO lower as investor concerns about the financial sector intensified, writes Alexandra Harney.

The Nikkei 225 average fell 206.9 or 1.4 per cent to close at its low for the session of 14,866.03, after climbing as high as 15,113.04. It was the second time this week the index had fallen below the 15,000 benchmark, after a rally at the end of last week. The ToPIX index of first section shares fell 18.37 or 1.3 per cent to 1,147.21.

Banking stocks were hurt by continued difficulties in the political debate over how to tackle the financial sector's bad debt problems.

A meeting of a government committee charged with finding a solution to the crisis was cancelled after politicians could not agree on a policy for the Long Term Credit Bank, the ailing financial institution that announced a restructuring plan last week. LTCB shares lost Y5 to Y23 on renewed concerns about its financial stability.

Other banks fell as well. Sanwa lost Y24 to Y266. Fuji



Source: Nikkei

of financial problems at Donghai Pharmaceutical and the composite index rose 7.33 or 2.4 per cent to 317.56. Investors took in their stride reports that Donghai had defaulted on payments of notes worth Won2.2bn. However, the stock exchange suspended trading in the shares, which were last traded at Won2,420, up Won20 from the previous close.

Overseas investors bought the index ahead of the increase in weighting in the Morgan Stanley Capital International's Emerging Markets Free Index from the current 2.5 per cent to 4.9 per cent from next month.

SYDNEY edged lower as nervousness over the Australian dollar and commodity prices weighed on shares. The All Ordinaries index closed down 18.70 at 2,608.00 after a volatile day.

Telestra fell 14 cents or 3 per cent to A\$4.47 as it announced full-year profits. Traders said disappointment over its failure to announce a special dividend had triggered profit-taking.

MANILA lost ground ahead of tomorrow's release of first half GDP figures, and the composite index closed down 23.17 or 1.8 per cent at 1,287.02. Holding company

Avaya fell 0.30 pesos or 4.3 per cent to 6.70 pesos. San Miguel lost 1.50 pesos or almost 4 per cent to 38.50 on reports that First Pacific of Hong Kong had sold its stake in the food group.

Investors were already pessimistic over the shares on San Miguel's sale of its 45 per cent stake in Nestlé Philippines to majority shareholder Nestlé for 30bn pesos.

HONG KONG gave in to profit-taking with less active buying seen by the government than in recent sessions. The Hang Seng index lost 55.99 to 7,894.46.

JAKARTA lost 1.7 per cent, reflecting falls in Telkom and Indosat as the strengthening rupiah made the two stocks look more expensive locally than in New York where both are also listed. Telkom fell Rp275 to Rp2,500 on concerns over prospects after its heavy losses in the first half of the year, while Indosat lost Rp325 to Rp2,800.

The composite index finished 6.29 down at 30,552. KARACHI climbed 2.4 per cent after US and Pakistani officials reported progress in talks on nuclear issues in London, raising hopes sanctions would be lifted soon. The KSE-100 index ended 23.44 higher at 1,003.56.

## CENTRAL BANK OF NIGERIA



### Request for Proposal - Automated Clearing System

- The Central Bank of Nigeria (on behalf of the Nigerian Bankers' Committee) invites tenders for the automation of the Nigeria Cheque Clearing System, beginning with the Lagos Clearing Zone.
- The key business requirements are as follows:
  - All clearing instruments must be fully encoded with Magnetic Ink Character Recognition (MICR) data, in accordance with the standards set by the Bankers' Committee.
  - All MICR-based item processing would be limited to the Participating Bank Clearing Centres (PBCCs) and their related bank branches.
  - Transmission of clearing data would be over secure, dedicated communication links.
  - The clearing system would be flexible, modular and scalable enough to allow for integration with other payment systems, enhancements and changes, in line with global trends.
- Prospective Solution Providers are expected to be internationally reputable companies with demonstrable expertise in the design, development and implementation of:
  - Secure and reliable metropolitan and wide area networks;
  - Relevant item processing and computing infrastructure;
  - A robust, state-of-the-art clearing application software.
- Full bidding document is available from the address below on payment of a non-refundable application fee of N45,000.00 (or US\$500.00) payable to Automated Clearing System Account with CBN Lagos, effective from 21st August, 1998. The final date for receipt of tenders will be 12th October, 1998.
- The Bankers' Committee is not obliged to explain or enter into any discourse on the selection process and the resultant short-list.

Chairman, Enlarged Clearing House Committee  
(Director, Banking Operations Department)  
Central Bank of Nigeria  
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